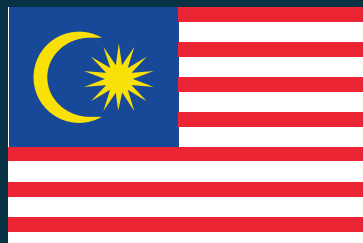
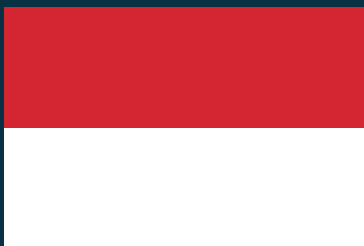
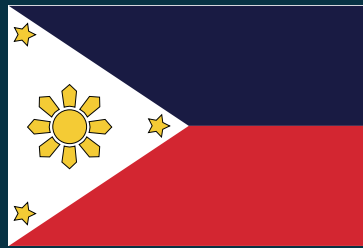


Marketing to the ASEAN Consumer





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MARKETING TO THE ASEAN CONSUMER

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CONTENTS



1	INTRODUCTION
2	A STORY OF GROWTH <ul style="list-style-type: none">A fast-growing consumer marketOne vision, but far from being a monolithic market
6	INSIDE ASEAN'S FOUR LARGEST MARKETS <ul style="list-style-type: none">Indonesia - rising inequality restricts market potentialThailand - opportunities brought by improved income distributionThe Philippines - emerging middle class with rising incomesMalaysia - a wealthy and dynamic consumer market
18	KEY CHALLENGES AND OPPORTUNITIES IN THE AEC <ul style="list-style-type: none">Disparity in income and expenditure among member countriesA large "bottom of the pyramid"Expanding middle classRapid urbanisation
23	RIDING THE ASEAN ELEPHANT
25	WHAT IS YOUR STRATEGY?
27	SUMMARY AND KEY TAKEAWAYS <ul style="list-style-type: none">How can Euromonitor International help?
29	THE AUTHOR

INTRODUCTION



The Association of Southeast Asian Nations (ASEAN) is approaching a new, highly anticipated milestone – economic integration through the creation of the ASEAN Economic Community (AEC). Comprising of ten Southeast Asian nations – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, the AEC will be a young and dynamic consumer market with over 622 million consumers, a burgeoning middle class with rising incomes and total consumer expenditure of US\$1.5 trillion.

Multinationals excited at the prospects of the AEC single market will not only face a changing business environment and consumer market landscape that they need to be prepared for, but will also need to have a deep understanding of the ASEAN as a region of unique economic, cultural and religious diversity. However, owing to the lack of standardised data and reliable forecasts, especially on household income and consumer expenditure, in-depth research on Southeast Asia's consumer market potential is hard to come by.

To fill in that gap and help companies gain an insight into Southeast Asian consumers' purchasing power and spending priorities, this white paper provides a detailed examination of the ASEAN's four largest markets – Indonesia, Thailand, the Philippines and Malaysia – which are likely to be the principal entry points for multinationals seeking to enter the AEC. Drawing on the vast array of Euromonitor International's socioeconomic indicators, including its unique income and expenditure data with forecasts to 2030, this white paper examines how consumers' income levels and spending patterns differ between the four major markets and the regions within each market, assesses the key challenges and opportunities that these disparities and variations present and engages in the wider question of the AEC's strengths, weaknesses, opportunities and threats. A detailed understanding of regional and country-specific diversities in respect of consumer income and spending habits will help companies target the right markets and segments within each market with suitable products and services in order to ultimately build and grow successful consumer-focused businesses in Southeast Asia.

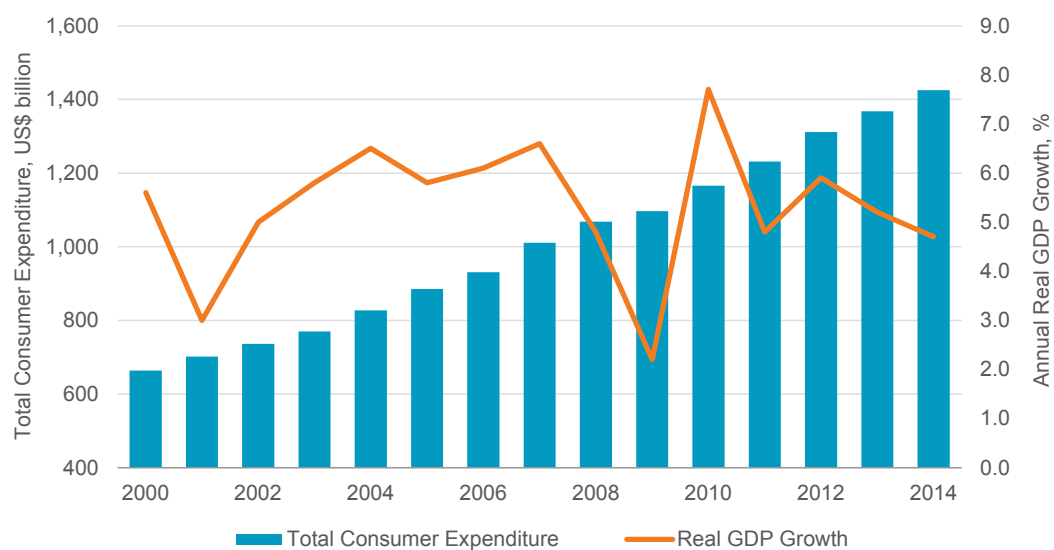
A STORY OF GROWTH

A fast-growing consumer market

The story of the ASEAN has been one of robust economic growth. Between 2000 and 2014, the ASEAN's real GDP growth rates averaged 5.3% per year, compared to the global average of 3.9% per year. Even during the global financial crisis of 2008–2009, the ASEAN economy was resilient: its annual real GDP growth slowed to 2.2% in 2009, but this bounced back to 7.7% in 2010.

As a consumer market, the ASEAN is a growing hub of consumer demand, with total consumer expenditure rising by 115% between 2000 and 2014, equivalent to an average annual growth of 5.6% in real terms. As of 2014, the ASEAN market was worth over US\$1.4 trillion in total consumer expenditure.

ASEAN's Real GDP Growth and Total Consumer Expenditure: 2000 - 2014



Source: Euromonitor International from national statistics/OECD/UN/IMF

Note: Data are in constant 2014 prices, fixed exchange rates

The ASEAN has excited consumer goods businesses not only with its exceptionally fast pace of economic development over the past decades, but also and more importantly because of its long-term potential as a collectively youthful and dynamic consumer market:

- If the ASEAN was a single economy, it would be the 7th largest in the world with total GDP of US\$2.5 trillion in 2014. Euromonitor International forecasts that by 2030, it could become the third largest economy in the world, behind only the USA and China.
- With over 622 million people as of 2014, the ASEAN's consumer market is larger in total consumer number than the European Union (EU), which had a population of 502 million in the same year. It is also bigger than North America, which had 354 million consumers in 2014.
- It is also a younger market than the EU, China and North America. In 2014, half of the ASEAN's population was below 28.8 years of age, compared to 38 in North America, 40.8 in China and 42.1 in the EU.
- The ASEAN consumer market is expected to expand rapidly, with total consumer expenditure forecast to grow by 105% in real terms between 2015 and 2030 – equivalent to an average annual real growth of 4.9% in real terms. By 2030, the ASEAN will be a market worth US\$3.1 trillion in constant 2014 prices.

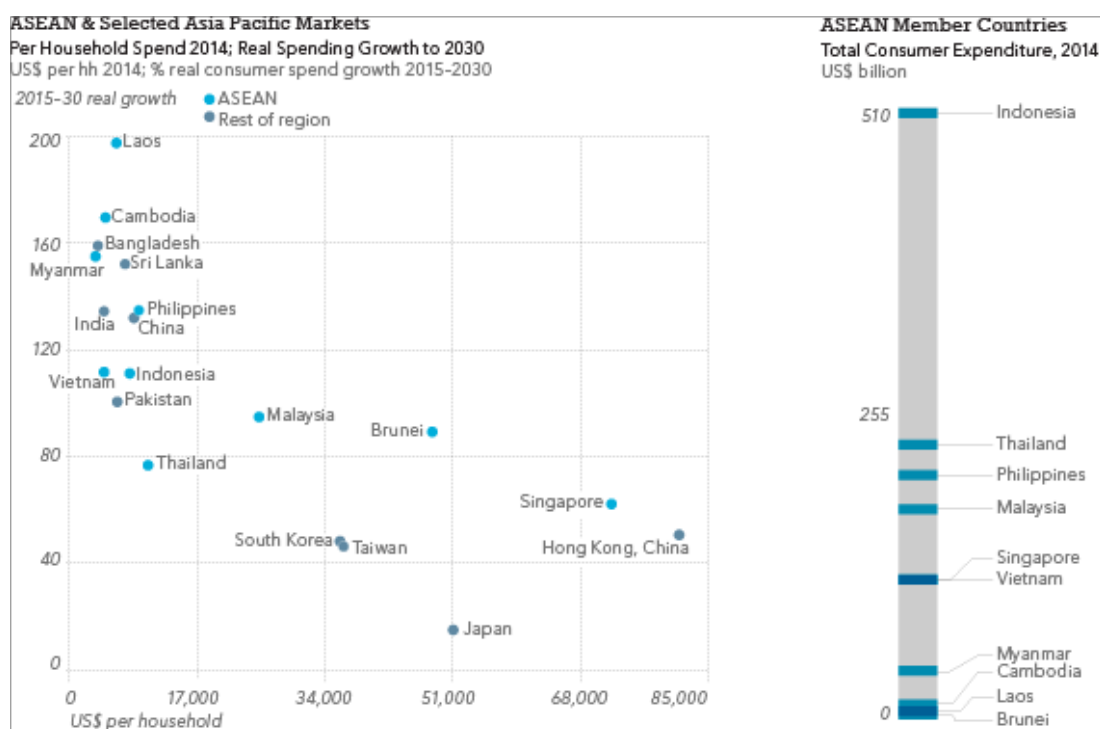
One vision, but far from being a monolithic market

The ASEAN's motto is "One Vision, One Identity, One Community" and yet the region is diverse in terms of culture, language and religion as well as the level of socioeconomic development and political systems. As such, the ASEAN is a fragmented market, not least in terms of consumer purchasing power:

- In 2014, the average household annual disposable income stood at US\$95,200 in Singapore, but was only US\$4,847 in Vietnam, and even lower in Myanmar. This huge income gap results from the uneven degrees of economic openness, trade liberalisation, financial market development and competitiveness across the ASEAN countries.

- Mirroring the income gap, the disparity in consumer expenditure is equally large: in 2014 an average Singaporean household spent US\$72,421, compared to only US\$3,398 in Myanmar. However, those ASEAN countries currently with lower average household spending – including Vietnam, Laos and Cambodia – are expected to record some of the strongest growth in total consumer expenditure in the period through to 2030 on the back of rapid economic growth, increasing trade and investment and rising disposable incomes.

ASEAN Economic Community: Integration with Diversity



Source: Euromonitor International

To add another dimension to the diversity of the ASEAN, the size of the consumer market as measured in total consumer expenditure varies significantly among member countries. The ASEAN's four largest consumer markets are Indonesia, worth US\$510 billion in consumer expenditure in 2014, Thailand at US\$231 billion, the Philippines at US\$205 billion and Malaysia at US\$177 billion. These major consumer markets require very different business strategies to smaller markets such as Brunei, Laos, Cambodia and Myanmar.

In addition to the differences in purchasing power, consumer spending and market size, businesses will have to navigate between the disparities in good governance and ease of doing business with Singapore consistently ranked as one of the best business environments globally, and Cambodia, Laos and Myanmar suffering from widespread corruption and red tape, development gaps in labour force and infrastructure and not least the multitude of ethnicities, religions, and languages that exists within each country. Beyond these diversities and differences, the ASEAN nations share eagerness to welcome investment and business opportunities as well as willingness to cooperate for greater wealth and an improved quality of life. This – as seen in the imminent creation of the AEC – makes the ASEAN a compelling market, one in which businesses can explore and seize the endless opportunities that integration and diversity can offer.

INSIDE ASEAN'S FOUR LARGEST MARKETS



Indonesia – rising inequality restricts market potential

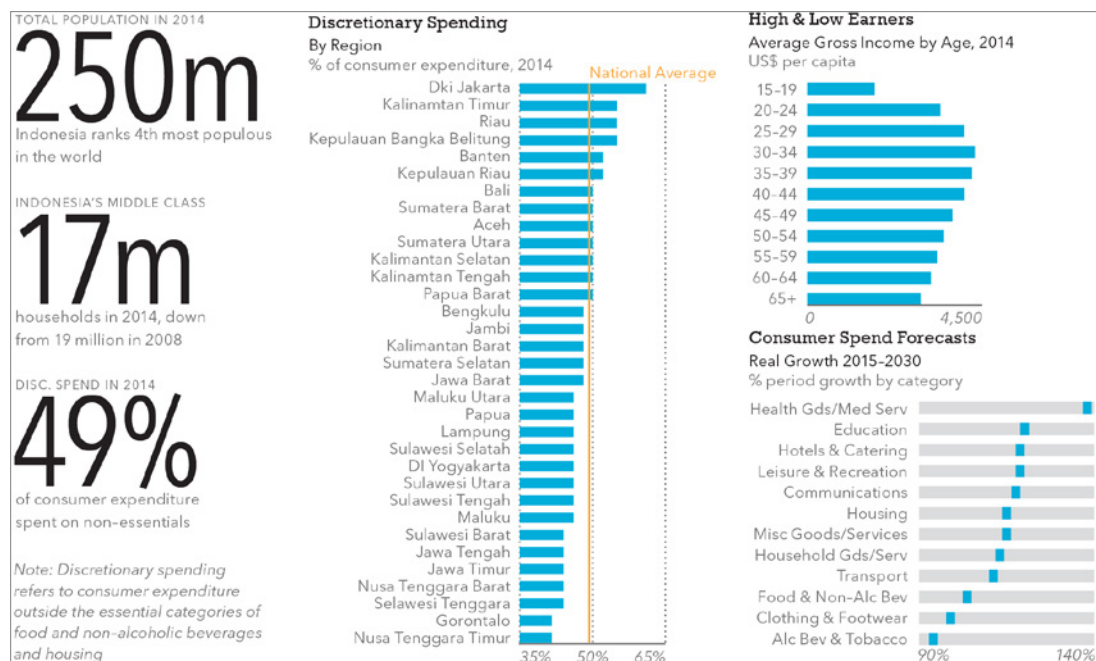
Indonesia has by far the largest market in the ASEAN in terms of both total consumer expenditure and absolute number of consumers, and yet much of its consumer market potential is restricted due to worsening income distribution:

- In 2014, Indonesian households spent on average US\$7,973, which was below the ASEAN average of US\$8,938 for that year as well as being the lowest spending level of the ASEAN's four largest markets.
- The middle class – the foundation of any modern-day economy and consumer market – has been shrinking as a result of worsening income equality. In fact, since the start of the 2008–2009 global financial crisis, Indonesia saw the largest rise in income inequality of all the 85 major economies whose Gini coefficient* for income inequality is tracked by Euromonitor International. Rising income inequality adversely affects the potential of the consumer market, as it restricts purchasing power to relatively few high earners and inhibits middle class expansion. It can also create social tension, damage the business environment, and hinder economic growth.

**Note: The gini index is a standard economic measure of income inequality, based on a Lorenz Curve. A society that scores 0 on the Gini index has perfect equality, where every inhabitant has the same income. The higher the number over 0, the higher the inequality, and a score of 1 indicates total inequality, where only one person receives all the income.*

- Essential spending– meaning expenditure on food, non-alcoholic beverages and housing – is persistently high, leaving Indonesian consumers with little capacity for discretionary spending. In 2014, non-discretionary expenditure accounted for 50.7% of total spending, leaving only 49.3% of household budget to discretionary items. Across the ASEAN, the average proportion of discretionary spending in total consumer expenditure stood at 56.5% in the same year.
- Furthermore, businesses will find that commercial opportunities are uneven in the country. The Special Capital Region of Jakarta – commonly referred to as Jakarta, Indonesia's capital and Southeast Asia's most populous city, enjoys the highest level of discretionary spending at 60.9% in 2014 thanks to the higher income and purchasing power of its residents. In 2014, households in Jakarta spent US\$20,859 on average, almost three times higher than the national average.

Indonesia's Consumer Market Overview



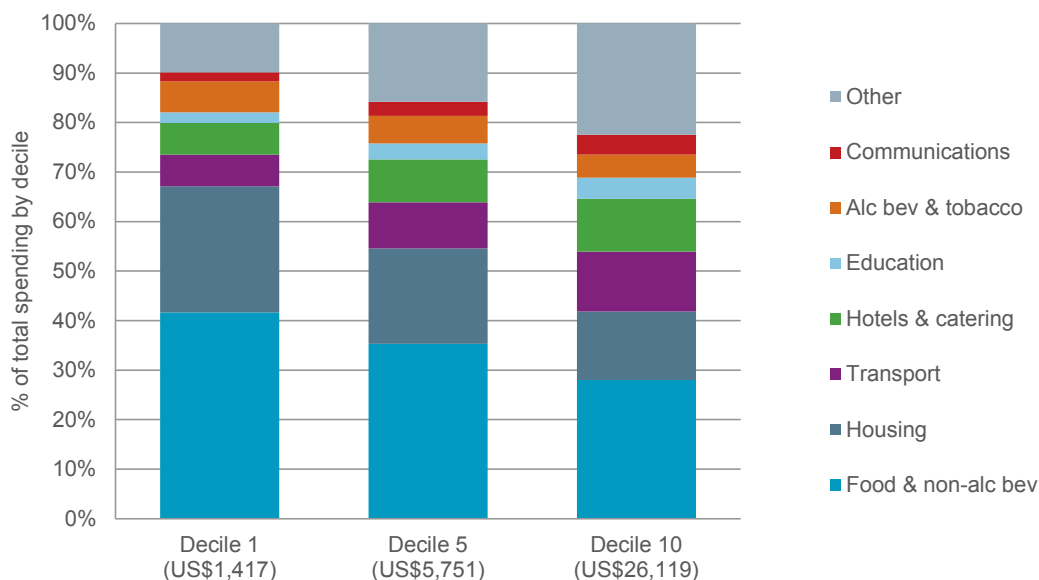
Source: Euromonitor International

Spending on essentials is stubbornly high across all income levels:

- The next chart illustrates the spending patterns in Indonesia of low-income households (represented by decile 1 – the poorest 10.0% of households), middle-income households (decile 5) and high-income households (decile 10). In 2014, food, non-alcoholic beverages and housing accounted for 67.1% of low-income household's total expenditure and 54.6% of total spending by middle-income households. Even for high-income households, essential items still accounted for as much as 41.9% of their total spending in 2014.

- Beyond the necessities, transport and hotels and catering are the most important discretionary categories across all income levels in Indonesia. Even low-income households devoted 6.4% of their total spending to each of these categories in 2014. Transport infrastructure in the Indonesian archipelago is poor, thus making transport expensive and inefficient for households as well as businesses. Meanwhile, as Indonesians commute long distances in dense traffic, time is scarce and convenience is a big factor in the Indonesian lifestyle, especially in urban areas. This drives the consumer spending category of hotels and catering. In Indonesia, eating out and take-away are catered for at every level, from the simplest roadside stall (warung) to high-table restaurants.
- Even in 2030, Indonesian households will not have significantly more room for discretionary spending. In fact, the budgets of low to middle income households will be more squeezed due to a projected rise in housing expenditure whilst high-income households are expected to enjoy only slightly higher capacity for discretionary spending by 2030. Companies expecting a significant shift in consumer spending patterns towards greater discretionary purchases will therefore be disappointed.

Spending Patterns of Indonesia's Low-, Mid- and High-Income Households: 2014



Source: Euromonitor International from national statistical offices/OECD

Note: The figures in brackets refer to the average disposable income of households in each decile.

To help businesses tap into the long-term potential of the Indonesian consumer market, Euromonitor International identified key spending trends:

- The Indonesian population is ageing rapidly. Through to 2030, the number of people aged 65+ will grow by 94.0%, nearly nine times faster than total population growth. As a result of this, and also thanks to greater awareness of health and healthy living, health goods and medical services will be the fastest-growing category of consumer expenditure over the 2015–2030 period.
- Conversely, the slowest-growing spending category over the same period will be alcoholic beverages and tobacco. Drinking is not popular for religious reasons in predominantly Muslim Indonesia, while increasing concerns for health will also dissuade consumers from further spending on this category. Additionally, a ban on small retailers selling alcoholic beverages that came into effect in April 2015, as well as proposals by Islamic parties to outlaw alcohol sales altogether, indicates that conservative forces in the country are pushing back against alcohol consumption, with a knock-on effect on this consumer spending category.

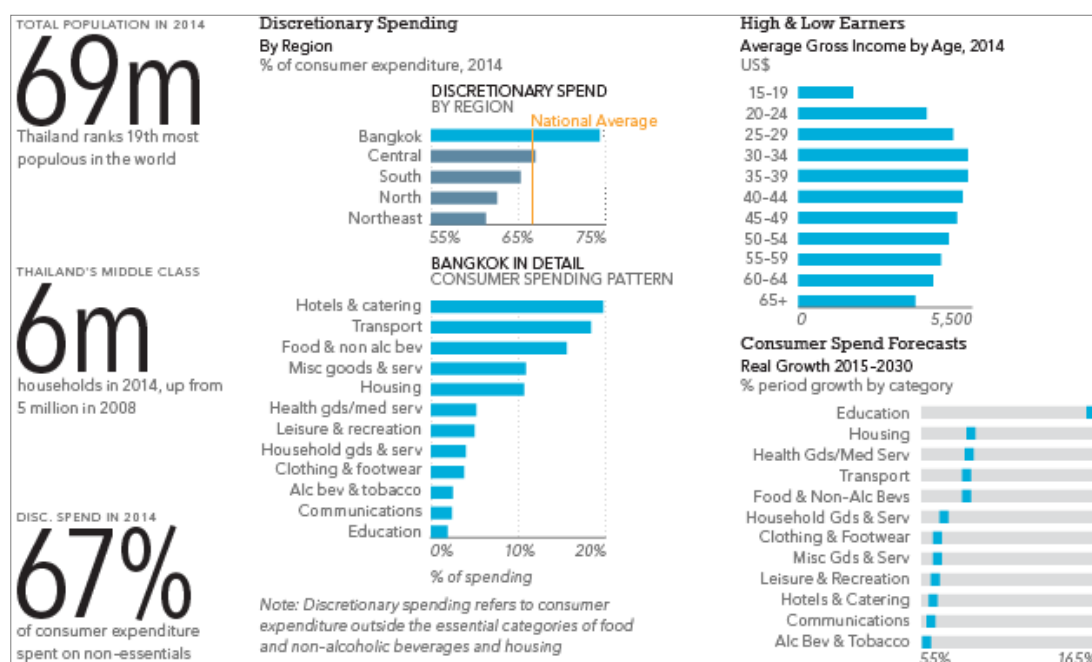
Thailand - opportunities brought by improved income distribution

With around 70 million people, Thailand is the fourth most populous nation in the ASEAN after Indonesia, the Philippines and Vietnam, but thanks to relatively high consumer spending at US\$10,415 per household in 2014, the country is the ASEAN's second largest market in terms of total consumer expenditure:

- On the back of very low unemployment and rising wages, income inequality in Thailand has been falling, although the gap between the rich and the poor remains large. At 45.9% in 2014, down from 47.2% in 2008 at the start of the global financial crisis, Thailand's Gini index remained higher than that of Indonesia, the Philippines and Malaysia, implying that Thailand has the most fragmented consumer market among the ASEAN four major markets.
- Improved income distribution has supported Thailand's middle class expansion and real consumer spending growth. Between 2009 and 2014, despite repeated episodes of political turmoil, the Thai consumer market expanded by 23.7% in real terms, equivalent to an average annual real growth of 4.3%.

- Of the ASEAN's four largest markets, Thai households enjoy the highest discretionary spending as a proportion of total expenditure, as housing takes up a low share of household budgets at 8.3% in 2014, largely thanks to the local culture of multi-generational family homes.
- Companies planning on entering Thailand may want to consider a regional strategy, with one-in-three dollars in the country spent in Bangkok and households in the capital spending twice as much on average as those in the north and north-east. Bangkok households also have a far greater power to spend on discretionary items thanks to their higher disposable incomes and relatively low housing costs, as Bangkok is one of the least expensive capitals in the world for housing. This, however, is set to change, because Thailand's economic and financial hub is experiencing a sharp increase in housing demand due to rapid urbanisation and a growing number of expatriates.

Thailand's Consumer Market Overview



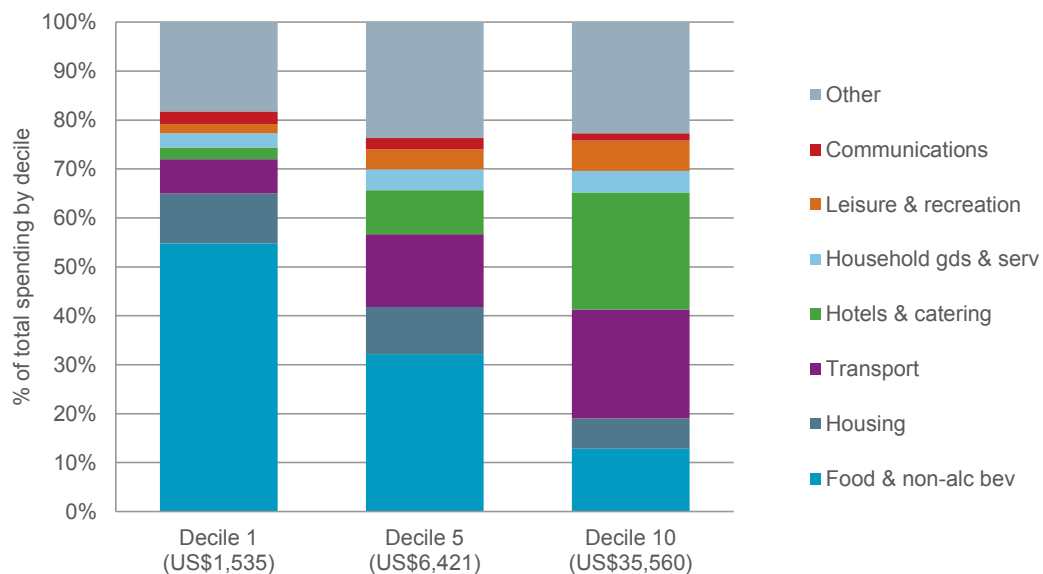
Source: Euromonitor International

A look at Thai households' shopping baskets reveals considerable variations in spending patterns across income levels that businesses must take into account when marketing goods and services to Thai consumers:

- In 2014, necessities accounted for 65.0% of total spending by low-income households whilst for middle-income households these took up a considerably smaller proportion, at 41.8%. The poorest Thai homes live in very straitened circumstances and any gain in income tends to be immediately allocated to meeting day-to-day needs.

- In the same year, Thai high-income households allocated 46.2% of their total expenditure to transport and hotels and catering – more than twice the amount apportioned to food, non-alcoholic beverages and housing. In fact, the richest 10.0% of households accounted for a disproportionate 42.6% of the country's total spending on hotels and catering in 2014, making it the most discretionary category of consumer expenditure.

Spending Patterns of Thailand's Low-, Mid- and High-Income Households: 2014



Source: Euromonitor International from national statistical offices/OECD

Note: The figures in brackets refer to the average disposable income of households in each decile.

Thailand's future consumption trends will be shaped by the country's middle class expansion while reflecting the rising costs of living:

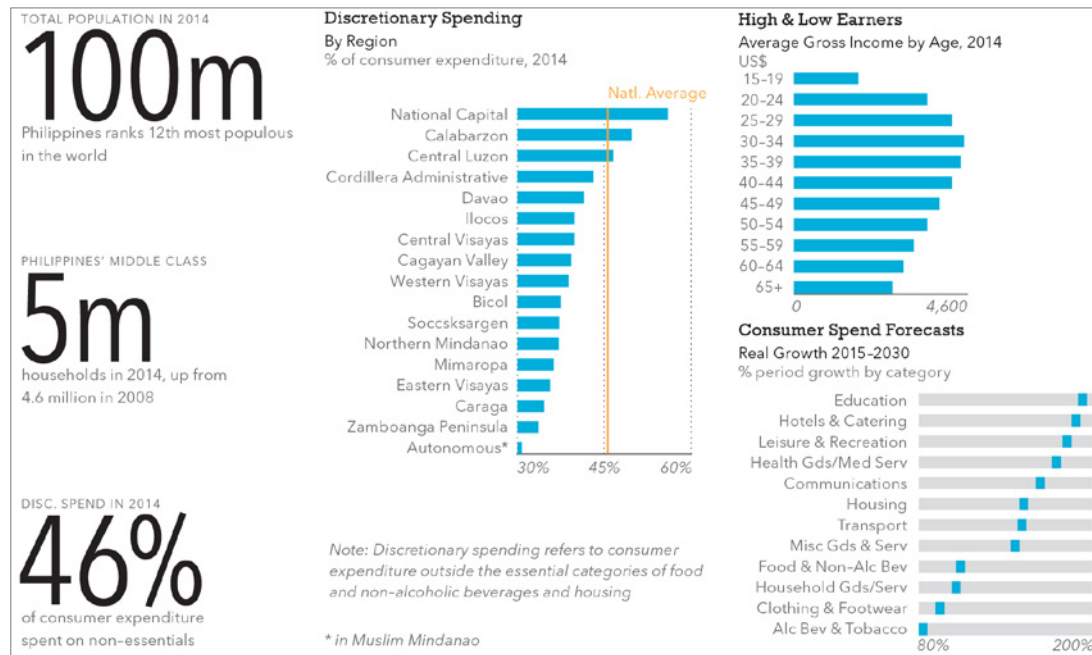
- Education is forecast to be the fastest-growing consumer spending category in the period of 2015–2030, driven by a growing middle class that highly values education for their children, a greater focus on adult education and the development of the private sector. International education providers are expected to increase their presence in Thailand to capture the opportunities presented by the country's expanding middle class as well as rising demand for English language training.
- Essential spending as a share of total household expenditure is expected to rise for all income types, driven by the rising cost of living, especially with housing expenditure. By 2030, necessities will comprise two-thirds of total consumption by low-income households, through to one-fifth for high-income households. Reduced power to spend on discretionary items will make Thai consumers more price-sensitive and increasingly demanding.

The Philippines - emerging middle class with rising incomes

The third biggest consumer market in the ASEAN in terms of consumer spending is the Philippines, but it is the second largest ASEAN nation in terms of population, which suggests that the Filipino consumer market has been performing below potential:

- Rising incomes and improved income distribution have supported the expansion of the Filipino middle class, whose number increased from 4.8 million households in 2009 to 5.4 million households in 2014. Yet, according to the Philippines' Statistics Authority, 25.8% of the Filipino population still lived below the national poverty line as of 2014.
- Filipino consumers have a weak capacity for discretionary spending due to the country's high cost of food relative to its low income level. In 2014, discretionary spending accounted for 45.6% total consumer expenditure in the Philippines – the lowest proportion among the ASEAN's four largest markets, restricting the Filipino consumer market potential.
- A regional strategy could be best for companies looking to do business in the Philippines, due to remarkable regional disparities. The National Capital Region (or Metro Manila) makes up a quarter of the country's consumer market and also boasts the highest level of household expenditure. In 2014, households in Metro Manila spent over three times as much on average as those in the Autonomous in Muslim Mindanao – a region blighted by a high poverty rate and a long history of conflict.

The Philippines' Consumer Market Overview

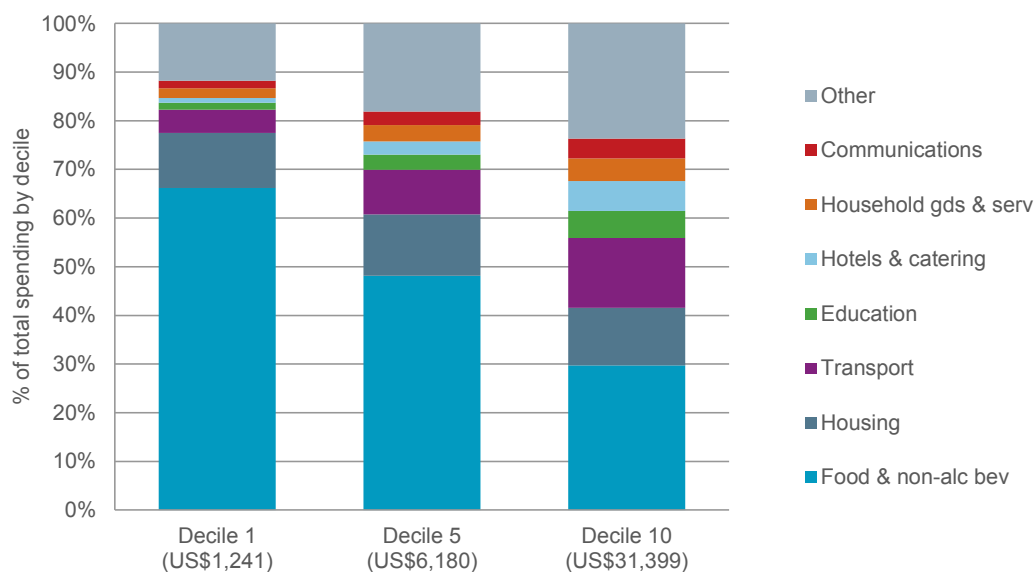


Source: Euromonitor International

In addition to regional disparities, the Filipino consumer market is fragmented along income lines:

- The consumption pattern of low-income households is dominated by basic necessities, which absorbed 77.5% of their total expenditure in 2014. As such, the Filipino “bottom of the pyramid” has very little capacity to spend on anything discretionary.
- On the contrary, essentials absorbed only 41.5% of high-income households’ budget in 2014, enabling them to allocate 15.1% of their expenditure to miscellaneous goods and services, which include insurance, financial services and jewellery, and a further 14.4% to transport.
- Given their discretionary spending power, high-income households capture a disproportionately large share of the country’s total expenditure in most categories with the exception of food and non-alcoholic beverages due to the natural consumption limit. With over one-in-three dollar on hotels and catering, leisure and recreation, and education in the country spent by the richest 10.0% of households, high-income households are an important consumer group especially for such categories in the Philippines.

Spending Patterns of the Philippines' Low-, Mid- and High-Income Households: 2014



Source: Euromonitor International from national statistical offices/OECD

Note: The figure in brackets refers to the average disposable income of households in each decile.

As reducing poverty and inequalities continues to be among the Filipino government's core priorities, income inequality is expected to fall over the long term, thus opening up business opportunities in a less fragmented market:

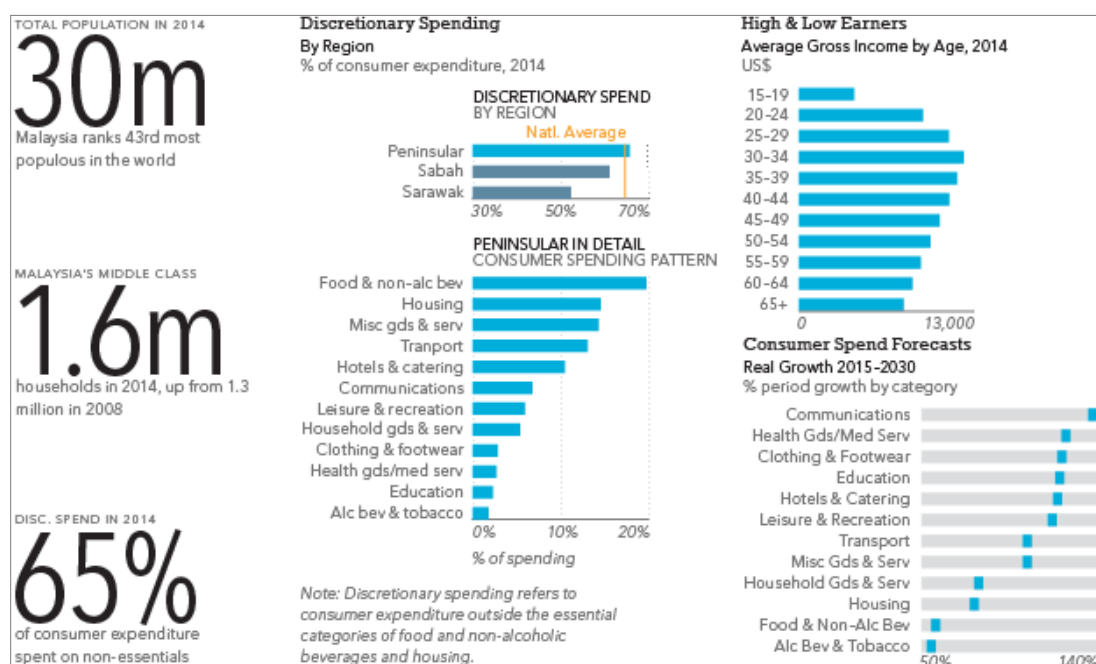
- Companies can expect a rising level of discretionary spending across all income levels through to 2030, as incomes increase and the middle class expands. By 2030, a quarter of Filipino households, 7.9 million, will belong to the middle class, which presents substantial opportunities to consumer goods businesses.
- Education, hotels and catering, and leisure and recreation will be the best-performing consumer spending categories in the long-term. Underlining the strong growth of these categories are rising incomes and a growing middle class.

Malaysia - a wealthy and dynamic consumer market

Compared to the other ASEAN major markets, Malaysia offers a very wealthy and dynamic consumer market:

- Of the four largest consumer markets, Malaysia recorded the fastest annual disposable income growth over the 2009–2014 period, at 41.0% in real terms, equivalent to a respectable average real gain of 7.1% per year. At US\$26,052 per household in 2014, Malaysia's average annual disposable income is also the highest among the ASEAN's four largest markets.
- On the back of high and rising annual disposable income and thanks to a maturing retail scene that brings essential goods to consumers relatively efficiently and affordably, Malaysian consumers can afford to allocate two-thirds of their total expenditure, equivalent to nearly US\$17,400 per annum, to discretionary items.
- The Peninsular region, which is also known as West Malaysia, dominates the country's consumer market. This is due to the presence of Kuala Lumpur, a dynamic global city that lies at the heart of Malaysia's financial, business, arts and political scenes. In fact, consumer expenditure is so heavily concentrated in the Peninsular that nine-in-ten dollars in the country are spent in this region, making it the single most important consumer market in Malaysia.

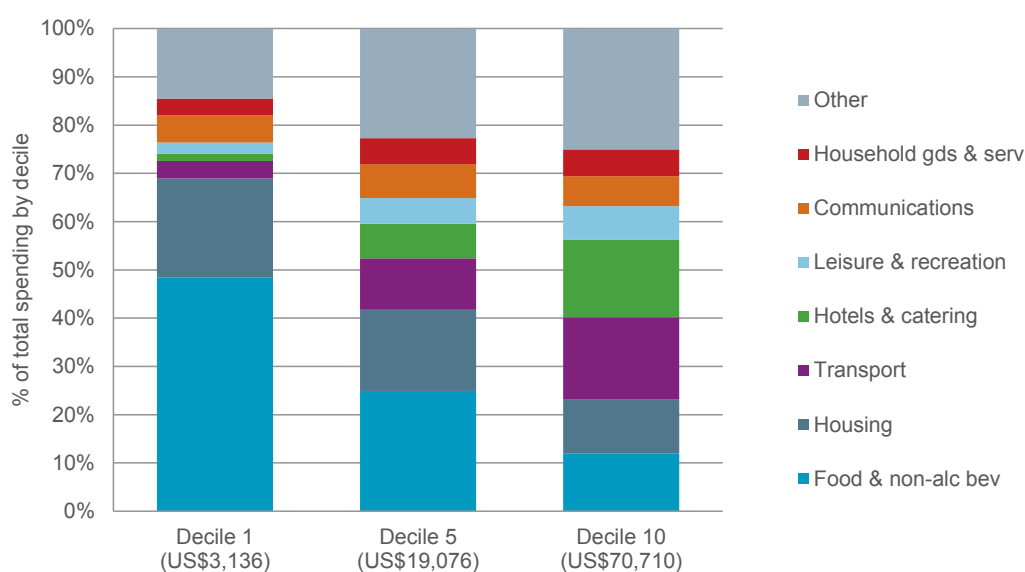
Malaysia's Consumer Market Overview



Although there are differences in consumption patterns between the rich and the poor due to existing income inequality, Malaysia offers businesses long-term potential thanks to consumers' high and rising capacity for discretionary spending:

- The share of essential spending in total expenditure across all income levels has been falling since 2009 partly thanks to rising income but also due to shrinking housing expenditure, as the Malaysian property market has not bounced back from the slump that ensued the 2008–2009 global financial crisis.
- Over the period through to 2030, essential spending as a share of total consumer expenditure is forecast to decline further for all income types thanks to rising disposable incomes. This creates opportunities for marketers of discretionary products and services to tap into the income consequently freed up.

Spending Patterns of Malaysia's Low-, Mid- and High-Income Households: 2014



Source: Euromonitor International from national statistical offices/OECD

Note: The figures in brackets refer to the average disposable income of households in each decile.

In addition to increasing consumer spending power on discretionary items, consumer expenditure trends in Malaysia are being influenced by the expansion of the country's middle class:

- Through to 2030, communications will be the consumer-expenditure category showing the strongest growth on the back of higher demand of value-added mobile telephony services, as well as increasing broadband Internet penetration rates. Health goods and medical services will be the second-fastest growing category, as a result of population ageing and consumers' greater recourse to private healthcare provision.
- On the contrary, alcoholic beverages and tobacco and food and non-alcoholic beverages are forecast to be the categories showing the slowest rate of expansion. Malaysia's maturing retail scene will continue to facilitate shoppers' access to such products through increasingly efficient and competitive channels, stripping these categories of their dynamism.

KEY CHALLENGES AND OPPORTUNITIES IN THE AEC



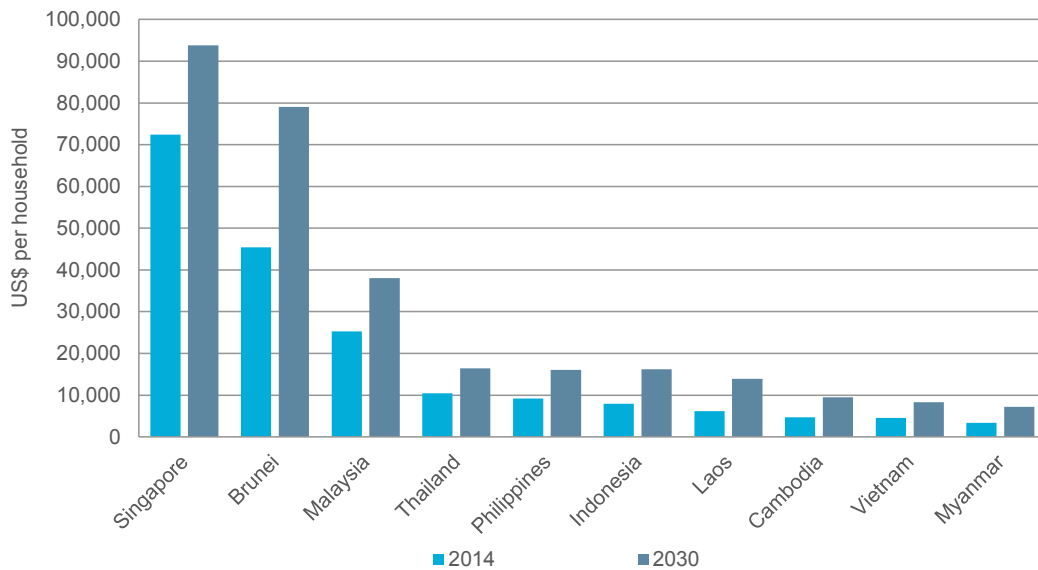
Disparity in income and expenditure among member countries

As alluded to earlier in this paper, one of the biggest challenges to the ASEAN as a single consumer market is the fact that it is divided – not least along the lines of consumer income and expenditure but also in terms of the sophistication of the retail landscape.

With Singapore and Brunei, both wealthy but extremely small and thus being special exceptions, the ASEAN is essentially divided into two tiers:

- In the first tier we have Malaysia, Thailand, Philippines and Indonesia with strong consumption bases and more developed retail scenes. Therefore, these countries can be important entry points for companies targeting the ASEAN consumer market.
- In the second tier we have Laos, Cambodia, Vietnam and Myanmar which in comparison to countries in the first tier do not have a large middle class with money to spend on discretionary items. These countries also have underdeveloped retail landscapes, which make it difficult for businesses to penetrate the market and reach the end consumer. In Vietnam, for example, in 2014 the top five retailers accounted for only 4.6% of the country's total retail sales while in Thailand the share was 27.1%.
- The remarkable differences in terms of income and consumer expenditure, as well as the disparity in terms of consumer access to goods and services, across the ASEAN mean that companies should not rely on a “one size fits all” strategy for the whole of Southeast Asia.

Consumer Expenditure per Household in ASEAN: 2014 and 2030



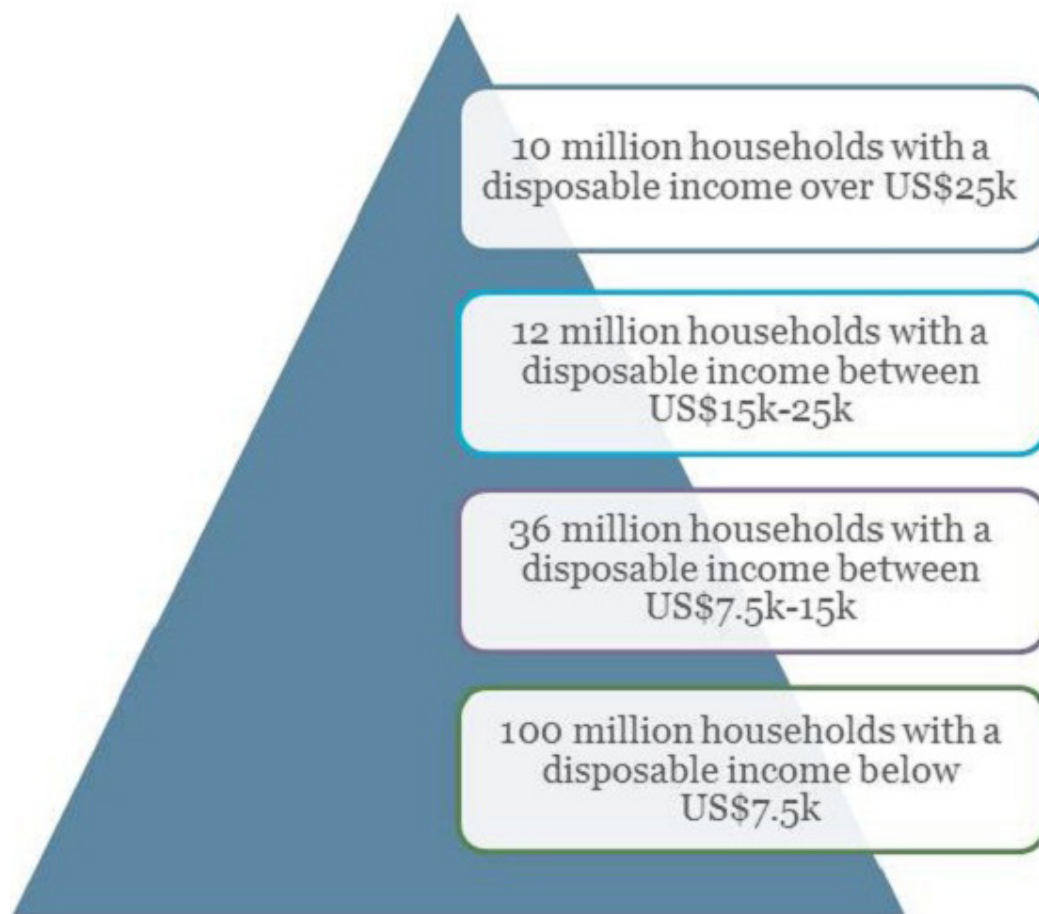
Source: Euromonitor International from national statistics/UN/OECD

Note: Data are in constant 2014 prices, fixed exchange rates; Data for 2030 are forecast.

A large “bottom of the pyramid”

The next big challenge is the fact that the so-called “bottom of the pyramid” in Southeast Asia remains large. In 2014, there were over 100 million households across the ASEAN with an annual disposable income below US\$7,500 – the equivalent to 62.8% of total number of households. ASEAN consumers at the bottom of the pyramid are often rural, hard to reach, poorly served and typically dominated by the informal economy.

The “bottom of the pyramid” is generally a risky and challenging place to do business. If companies focus solely on commercial gains, they will likely meet with opposition from civil society and local governments. However, if they focus mainly on social impact and consider commercial gain secondary, profits at the “bottom of the pyramid” are likely to be meagre. Euromonitor International forecasts that by 2030 the number of households with an annual disposable income below US\$7,500 in 2014 prices in the ASEAN will fall to 79.8 million, 40.5% of total number of households.

Household Income Distribution in ASEAN: 2014

Source: Euromonitor International from national statistics

Although it is challenging to do business at the “bottom of the pyramid”, its large size with plenty of opportunities for low-cost, simple products and services is not to be overlooked. In doing business with the poor, however, companies are required to understand the trade-off that low-income consumers make between price and quality. In addition, they also need to rethink their business strategy in order to not only navigate between profits and social responsibilities, but also overcome other difficulties surrounding infrastructure, distribution and brand or even category awareness.

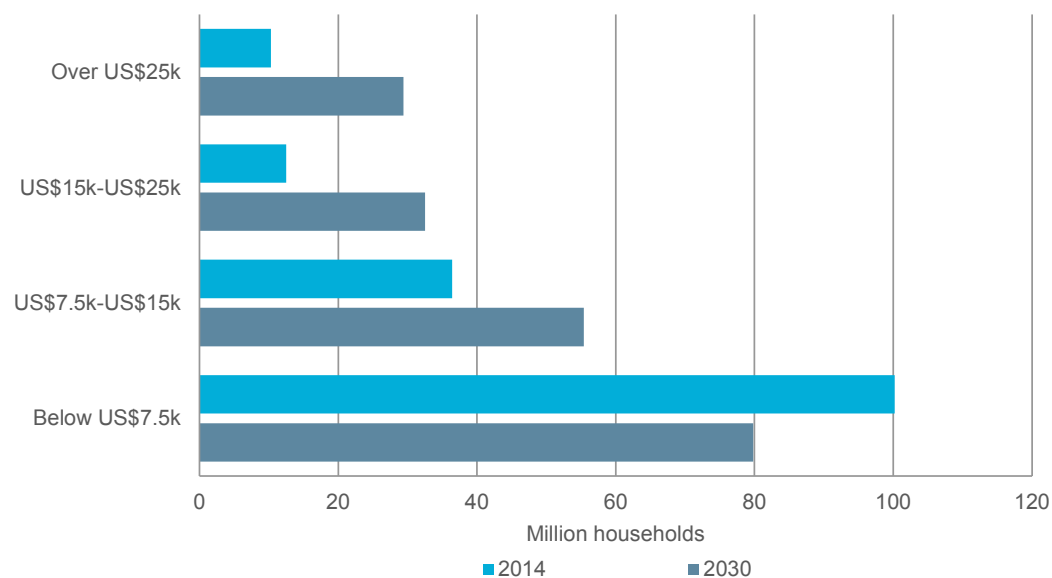
Expanding middle class

As the “bottom of the pyramid” market shrinks thanks to rising incomes, the ASEAN’s middle class is expanding and enjoying greater purchasing power. Households can generally start to spend on discretionary items when they have an annual disposable income above US\$7,500. Meanwhile, households earning between US\$15,000 and US\$25,000 are considered the middle class, as they have sufficient spending power to make significant discretionary purchases.

By 2030, the number of households with an annual disposable income between US\$7,500 and US\$15,000 is set to rise by 52.1% over 2014. Yet it is the middle class, comprising of households with an annual disposable income of US\$15,000–US\$25,000, and upper middle class, comprising of households on US\$25,000+, that will expand at the fastest rates, rising by 161% and 187% respectively over the same period.

The expansion of the ASEAN middle class is exciting, but companies should not be complacent, because middle-class consumers in the region are demanding and their behaviours are easy to change. They aspire towards “cool” brands but they always consider lower-priced options. Because they always look for better quality and better value, they want to be regularly updated and well informed.

Households by Annual Disposable Income Band in ASEAN: 2014 and 2030



Source: Euromonitor International from national statistics

Note: Data for 2030 are forecast

Juice concentrates were very popular in Southeast Asia because they offered an economical and convenient beverage for low-income consumers. But middle-class consumers, with rising disposable incomes and greater health awareness, are abandoning concentrates altogether. Makers of juice concentrates including Sunquick, Ribena and Naturalle have found success when they build on consumers' brand familiarity and innovate beyond their traditional market position to offer healthier fruit drinks that contain natural ingredients. Moving up the value chain has thus allowed these brands to be part of consumer soft drink evolution and capitalise on the emerging middle class.

Rapid urbanisation

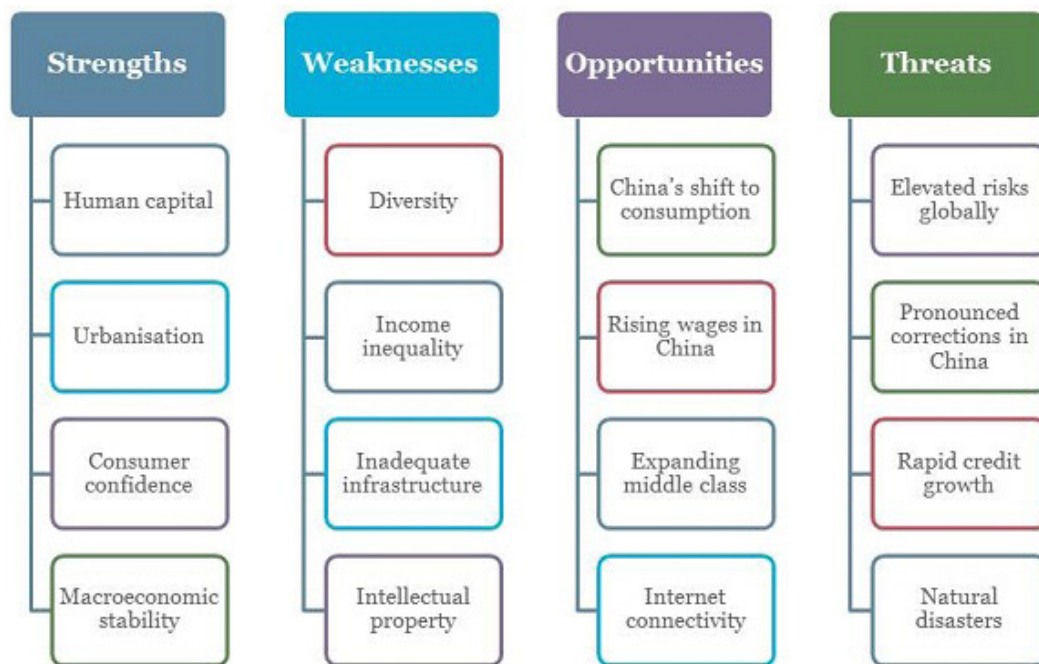
Urbanisation and consumer spending growth go hand in hand, and the cities across Southeast Asia are booming. By 2030, 52.4% of the ASEAN population will live in urban areas, up from 43.5% in 2014. In absolute terms, the number of urban dwellers in Southeast Asia will grow by 34.7% over the 2015–2030 period to reach 372 million by 2030.

Urban consumers generally enjoy higher incomes than their rural counterparts because urban jobs tend to be more productive and better paid than farming jobs, while urbanisation makes it easier for companies to reach consumers. Consequently, this will result in stronger consumer market gains.

Urbanisation also gives rise to new social and demographic trends – such as falling number of children, smaller household sizes, rising number of single-person households and apartment living – that contribute to driving consumer demand and create new business opportunities. Owing to urbanisation, single-person households is set to be the fastest growing type of households in ASEAN, rising by 56.5% between 2015 and 2030, compared to a rise of 26.1% in total number of households. Businesses looking to expand in ASEAN must strategise for changing demand and needs of a greater number of urban consumers in order to seize the opportunities presented by rapid urbanisation.

Jakarta is the second most populous city in the world and it also has one of the smallest elderly shares among the world's major cities, as the over-65s account for less than 5.0% of Jakarta's total population. By 2030, Jakarta is set to overtake Tokyo as the world's most populous metropolis. The city already houses over 170 shopping malls, the most in the country, and with their number continuing to grow, Jakarta aspires to become one of the most attractive shopping destinations in Asia.

RIDING THE ASEAN ELEPHANT



Source: Euromonitor International

In addition to the above-mentioned key challenges of income disparity, a large “bottom of the pyramid” and key opportunities brought about by an expanding middle class and rapid urbanisation, Euromonitor International has assessed the ASEAN’s strengths, weaknesses, opportunities and threats to help businesses evaluate the potential of the region’s consumer market:

- In terms of strengths, the ASEAN has a large, young and educated population while rapid urbanisation creates new commercial opportunities and drives consumer market gains. Furthermore, ASEAN consumers are among the most confident in the world. Their optimistic outlook stems from the region’s macroeconomic stability, as Southeast Asia has been remarkably resilient in the aftermath of the 2008–2009 global financial crisis.

- ASEAN's weaknesses are inherent in its diversity in terms of cultures, languages, economic structures, political systems, quality of regulations and business environments. The income gap among ASEAN members as well as within each member country is large. Adding to this, the infrastructure deficit, both national and intra-regional, can hinder distribution efforts while counterfeiting remains a serious concern. In Indonesia, for example, it is estimated that the economy could be losing up to US\$5.6 billion a year in retail sales due to counterfeit goods.
- Opportunities are aplenty, attracting multinationals to the region as well as enabling ASEAN companies to grow and enjoy big success. China's shift to a consumption-driven economy is creating a larger market for ASEAN exports, which will increase corporate earnings as well as incomes for ASEAN workers. At the same time, rising labour costs in China makes the ASEAN a more competitive place to do business and helps to enhance investment and employment opportunities across the grouping. Further opportunities arise from the ASEAN's expanding middle class and high rate of Internet penetration. Being connected to the Internet has changed the way the consumers learn about and interact with brands, creating endless opportunities for brands to connect with consumers.

The ASEAN as a whole makes up the world's second largest community of Facebook users, behind only the USA.

- However, the threats facing the ASEAN are significant. Elevated risks globally are a threat to Southeast Asia, because the regional economy is largely export dependent. Meanwhile, faster-than-expected deceleration in the Chinese economy can adversely impact ASEAN exports to China as well as Chinese investments into the ASEAN, which in turn will lead to falling employment and decreasing consumer spending. Internally, ASEAN households have seen ballooning debt as a result of loose monetary policies at home and around the world, which raises concerns as asset and property bubbles are getting bigger. Last but not least, Southeast Asia is highly vulnerable to natural hazards. Catastrophes such as the Asian tsunami in December 2004 and Typhoon Haiyan in the Philippines in November 2013 claimed a high human toll as well, causing long-term damage to infrastructure, businesses and homes and pushing people back into poverty.

WHAT IS YOUR STRATEGY?



The disparities and variations in terms of income and expenditure in the ASEAN require businesses to adopt a granular strategy that accounts for national and intra-regional diversities. As well as navigating a fragmented marketplace, however, companies need to recognise the larger market given the imminent formation of the AEC.

To capture this opportunity, businesses need not only to understand the competitive landscape (in other words, know their local, regional and global competitors), but also innovate and move up the value chain in order to cater for an expanding middle class with rising incomes and an increasingly urban economy that demands more sophisticated goods and services.

Whilst it makes sense to pay close attention to serving younger consumers – after all, this is a young consumer market with people in their 30s enjoying the highest purchasing power, businesses need to look ahead to the future of population ageing. Changing demographics will see income gradually concentrated less among the younger cohorts and expanding in the elderly consumer segment, giving rise to new business opportunities. Euromonitor International forecasts that health goods and medical services will be among the best-performing categories of consumer expenditure in the ASEAN through to 2030, growing by 127% in real terms over the 2015–2030 period, only slightly behind communications at 131% and education at 143%.

Finally, act now and embrace change. Companies looking to expand and succeed in the ASEAN need to strategise for a regional game plan, gain advantage from being early movers and seek talent early. Although markets such as Singapore and Malaysia are likely to have plenty of talent, competition for talent in the rest of the ASEAN might make hiring key staff much more difficult and expensive than anticipated.

Many companies are not waiting for the formal creation of the AEC, as they are already acting to expand their regional reach. For example, Thai Beverage acquired Fraser & Neave in 2013 as part of its strategy to acquire popular regional brands and expand its consumer base across the ASEAN.

The ASEAN is entering a new era and the AEC will boost its growth story. The commencement of the AEC at the end of 2015 will be the start of an exciting journey ahead.

SUMMARY AND KEY TAKEAWAYS



The creation of the ASEAN Economic Community will open up a wide range of business and investment opportunities, but companies excited at the prospects of the AEC single market and its growing consumer class should not lose sight of the fact that the ASEAN will remain a highly diverse region with significant challenges and diverging consumer expenditure trends.

- In Indonesia, income inequality has been on the rise, and is set to increase further in the long term. This adversely affects the potential of the consumer market, because it inhibits middle class expansion and restrains consumer expenditure growth, while potentially creating social tension and impacting the business environment. But it is important to bear in mind that Indonesia is by far the largest consumer market in the ASEAN.
- In Thailand, improved income distribution has supported the country's middle class expansion and consumer spending growth. However, the gap between the rich and the poor remains large, and so are the differences in their consumption patterns. Whilst the poorest Thai homes live in very straitened circumstances, Thai high-income households spend almost US\$2 on hotels and catering for every US\$1 on food and non-alcoholic beverages at home.
- In the Philippines, the consumer market is fragmented along income lines and also divided between regions, which result in uneven opportunities. In Malaysia, regional imbalance is manifested in the heavy concentration of consumer expenditure in one single region.

- Looking beyond the four largest markets which will likely serve as the entry points into Southeast Asia, commercial opportunities across the region are aplenty. The ASEAN expanding middle class with rising purchasing power is already a focus for businesses, while the low-income market provides opportunities for low-cost, simple products and services. Furthermore, rapid urbanisation that is happening across the ASEAN is creating opportunities by giving rise to new consumption trends, driving consumer expenditure gains and making it easier for companies to reach consumers.

How can Euromonitor International help?

A thorough understanding of all aspects of the market is crucial for building and growing successful consumer-focused businesses in the ASEAN.

Euromonitor International can help your business understand all of the factors central to understanding the market – insight into industry sectors, economic indicators, the business environment and consumer trends and lifestyles – to ensure optimum performance in new markets and lessen the risk of costly mistakes and missed opportunities.

Euromonitor International's Passport database offers a host of relevant information to help companies paint a picture of their markets, from understanding macro-economic stability and the practicalities of doing business through to providing insight into patterns of income and expenditure and consumer trends, motivations and attitudes. We help organisations understand the specifics of their markets to a granular level. For example, how many 25–29 year olds earn in excess of US\$150,000 annually in Indonesia or Vietnam or Thailand? What is the household spend on education, or on household goods and services, of a middle-income household in the ASEAN? How many households in Southeast Asia have access to mobile internet or to an internet-enabled computer? This type of information will help you strategically target and market to your audience in any country across the globe.

In addition, we monitor industry trends and provide market size and company and brand share information for 28 industries throughout the world in more than 80 countries. This white paper is just a glimpse of the types of information we have available in our Passport database. To ensure your market entry success, consider reaching out to learn more about our products and services.

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An Hodgson specialises in strategy research and insight analysis into a wide range of topics, from economic trends, income distribution and consumer spending patterns through to emerging issues concerning industry, infrastructure and environment. An regularly writes comment and opinion pieces that help businesses gain important insight into global, regional and key emerging market trends and thereby allowing them to make more informed commercial decisions. She also commissions and edits a range of articles and country briefings on income and expenditure in 85 core economies.

Before joining Euromonitor International, An taught post-graduate courses in Asian Studies at Lund University (Sweden) and was a research fellow at Leeds University (UK). Her research focused on social change and the middle class in Asia, with research findings being published extensively in peer-reviewed journals and books as well as presented at various conferences.