



By Kapil Joshi and Ali Potia

# Shaping the future of consumption in ASEAN

Executives at consumer goods and retailing companies must take more sophisticated and nuanced approach to their marketing effort as there is continued consumption growth in ASEAN.

ASEAN countries have experienced two decades of robust economic growth, which has successfully lifted millions out of poverty and created an urban middle class with newfound spending power. The region's booming cities already account for more than 65 percent of ASEAN's GDP, and will add an additional 90 million people by 2030. Rapid urbanization will propel the continued growth of the "consuming class," which will double to 163 million households by 2030. Income gains are expected to spur a dramatic rise in demand for a wide range of goods and services. Finally, a fast-growing segment of elderly customers and pockets of large young populations will make up the coming wave of consumers in ASEAN.

Within this context, we wanted to see what impact, if any, these trends are having on consumers' preferences and behaviours, particularly with Thailand and Indonesia -- two of the largest markets in the region -- starting to show signs of slowing economic growth.

Our recent survey of 1,000 consumers in both Thailand and Indonesia found that consumers are indeed worried about their financial prospects and being cautious with their spending. The Thailand and Indonesia surveys were part of a global research effort fielded in September 2015 and again in September 2016. This involved more than 25,000 respondents in 25 countries accounting for 70 percent of the world's population. The survey insights have several important implications for consumer goods companies and retailers doing business in ASEAN.

### Cautiously optimistic

General sentiment about the economy is improving; for example, 43 percent of Indonesian respondents said they were optimistic about their country's economy, a 3 percentage-point jump compared with 2015. This is much higher than the global average. On the other hand, only 21 percent of Thai respondents said they were optimistic about their country's economy, reflecting a 2 percentage-point increase. The subdued response suggests consumers do not feel financially secure, with 62 percent of respondents in both countries saying they were somewhat or very worried about losing their jobs (Exhibit 1).

Consumers are being cautious as a result. Half of our respondents in Thailand said they had either cut back on spending or delayed making purchases. In Indonesia, 33 percent said they had cut back spending and 46 percent had delayed purchases.

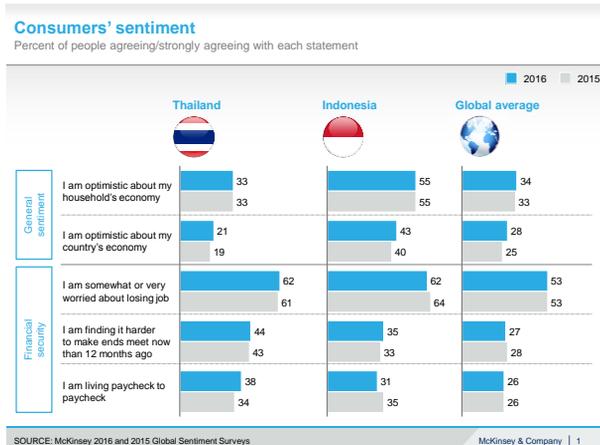
If their incomes were to rise by 10 percent, survey respondents in both countries said they would spend about one third of every additional dollar earned, with the rest going toward savings or paying down debt. However, even in this situation of improving finances, most – about 80 percent – would use the extra money to buy everyday necessities.

Our survey highlighted four attributes of cost-conscious consumers, with many of the behaviours consistent between ASEAN and other emerging markets.

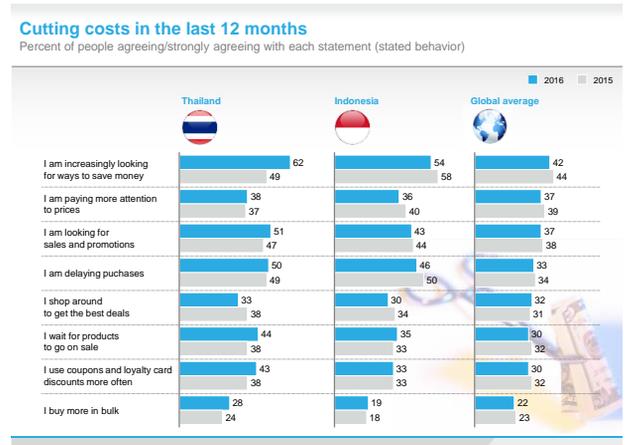
### Four attributes of cost conscious consumers

Savvy cost-cutting is the norm: about half of our respondents in both countries are looking for sales and promotions or delaying purchases. In Thailand, 62 percent said they increasingly look for ways to save money, a 13 percent increase in just one year

### Exhibit 1



### Exhibit 1



Some remain loyal to brands, but up to a limit: More than a third of our survey respondents said they would still buy their preferred brands but will shop around to find retailers that sell these brands at lower prices.

They will spend more on themselves, but trade down or save to rebalance spending: Somewhat counterintuitively, consumers also told us that they splurge by spending on premium products or brands, albeit selectively.

They actively trade off, spending less on staples and household cleaning products, but trade up in categories such as ice-cream, cosmetics, wine, and spirits. They do so because they expect better quality and performance (78 percent for Indonesia, 65 percent for Thailand) and are generally pleased with the more expensive brands (65 percent for Indonesia, 62 percent for Thailand) when they've traded up.

When they buy a cheaper alternative, they don't go back to their brand: Only 6 percent of respondents in Indonesia said they had traded down in the last year, compared with 13 percent in Thailand and the global average of 12 percent. In South Africa and Brazil, countries with economic troubles, this number was closer to 20 percent. When consumers did trade down, 78 percent in Indonesia and 62 percent in Thailand said they would not go back to the more expensive brand – a worrying trait for branded manufacturers. If a financial crisis were to prompt a wave of reduced spending and trading down in ASEAN, it may take a long time for consumption patterns to recover.

### **Imperatives for consumer companies**

As consumer goods companies and retailers look to tap into the opportunities presented by ASEAN's growing consumer class, they would do well to understand prevailing consumer sentiments and how that underpins behaviours.

The following approaches are particularly important to consider given consumer caution:

- Develop a price-brand architecture to capture both elements of consumer spending, trading upwards and downwards: This is especially important during economic downturns when consumers in emerging markets tend to make active trade-offs. Use design-to-value thinking to pare manufacturing and distribution costs to launch “economy” products or brands.

At the same time, companies must be careful about the impact on their overall portfolio, ensuring that losses at one price point are offset by appropriate gains at another.

- At every price point, be clear on the value story: The data unequivocally show that consumers are on the lookout for savings opportunities. The perception of value for money is shaped by much more than low prices – brands must remind and reassure consumers that their purchase was worth the price. This involves having emotional and functional narratives that appeal to target customers.
- Invest in analytical, data-driven decision-making capabilities: Companies must find micro-markets and micro-segments – pockets that are growing faster than prevailing overall market growth rates. They will also need to address how to better measure the effectiveness of promotions, how to optimize marketing budgets, and how to communicate value. Advanced capabilities such as geospatial analytics and revenue-growth-management analytics will be key to developing granular strategies by category, brand, channel, segment, and micro-market
- Continue to optimize costs, investments, and operational efficiency

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