

The Future of Asia

# Beyond income: Redrawing Asia's consumer map

Discussion paper  
September 2021

**Authors**

Oliver Tonby, Singapore  
Jonathan Woetzel, Shanghai  
Rohit Razdan, Singapore  
Wonsik Choi, Seoul  
Sven Smit, Amsterdam  
Naomi Yamakawa, Tokyo  
Jeongmin Seong, Shanghai  
Tiago Devesa, Sydney



# McKinsey Global Institute

Since its founding in 1990, the McKinsey Global Institute (MGI) has sought to develop a deeper understanding of the evolving global economy. As the business and economics research arm of McKinsey & Company, MGI aims to help leaders in the commercial, public, and social sectors understand trends and forces shaping the global economy.

MGI research combines the disciplines of economics and management, employing the analytical tools of economics with the insights of business leaders. Our “micro-to-macro” methodology examines microeconomic industry trends to better understand the broad macroeconomic forces affecting business strategy and public policy. MGI’s in-depth reports have covered more than 20 countries and 30 industries. Current research focuses on six themes: productivity and growth, natural resources, labor markets, the evolution of global financial markets, the economic impact of technology and innovation, and urbanization.

MGI is led by three McKinsey & Company senior partners: co-chairs James Manyika and Sven Smit and director Jonathan Woetzel. Michael Chui, Mekala Krishnan, Susan Lund, Anu Madgavkar, Jan Mischke, Jaana Remes, Jeongmin Seong, and Tilman Tacke are MGI partners. Project teams are led by the MGI partners and include consultants from McKinsey offices around the world. These teams draw on McKinsey’s global network of partners and industry and management experts.

The MGI Council is made up of McKinsey leaders and includes Hemant Ahlawat, Michael Birshan, Andrés Cadena, Sandrine Devillard, André Dua, Kweilin Ellingrud, Katy George, Rajat Gupta, Eric Hazan, Solveigh Hieronimus, Acha Leke, Clarisse Magnin Mallez, Jurica Novak, Gary Pinkus, Hamid Samandari, Sha Sha, Oliver Tonby, and Eckart Windhagen. The Council members help shape the research agenda, lead high-impact research, and share the findings with decision makers around the world. In addition, leading economists, including Nobel laureates, advise MGI research.

This report contributes to MGI’s mission to help business and policy leaders understand the forces transforming the global economy and prepare for the next wave of growth. As with all MGI research and reports, this work is independent and reflects our own views. This report was not commissioned or paid for by any business, government, or other institution, and it is not intended to promote the interests of McKinsey’s clients. For further information about MGI and to download reports, please visit [www.mckinsey.com/mgi](http://www.mckinsey.com/mgi).

# Contents

In brief	ii
1. Surging up the income pyramid	1
2. Ten consumer shifts that matter	9
3. Beyond income: Value shifts to new consumption curves	43
4. Time to redraw Asia's consumer map	66
Epilogue: Imagine futures	72
Technical appendix	77
Acknowledgments	80

# Beyond income: Redrawing Asia's consumer map

Asia is the world's consumption growth engine—miss Asia and you could miss half the global picture, a \$10 trillion consumption growth opportunity over the next decade. Scale continues to be a key characteristic, but the story of the next ten years and beyond is one of rising diversity in consumer markets amid significant social, demographic, and technological change. Three changes in perspective are key to understanding the new consumption paths being trailblazed by Asia's consumers. The first is that as incomes rise across Asia, more consumers will reach the highest tiers of the income pyramid, and movement within the consuming class is likely to be a larger driver of consumption growth than movement into it. The second is that cities will continue to be the driver of consumption growth, but promising sources of growth are increasingly diverse cohorts within cities, such as Insta-grannies in Seoul, Generation Z gamers in Surabaya, career moms in Manila, or lifestyle-indulging digital natives in Chengdu. Third, as the relationship between income and consumption breaks down in some instances, new consumption curves are emerging in specific product categories—income-driven S-curves may flatten as business innovation and new technologies enable more people, even on lower incomes, to access and afford goods and services.

Part of a series on the future of Asia, this research focuses on the region's consumer markets, surveying the outlook for consumption and identifying major shifts in consumption patterns over the next decade. Key findings include the following.

**From people moving into the consuming class to moving within the consuming class.** Between 2000 and 2020, 1.5 billion new consumers joined the consuming class (spending

more than \$11 a day in purchasing power parity terms), and an additional billion may follow over the next decade. These new consumers are expected to attain higher income levels than past joiners, shifting the center of gravity of the income pyramid sharply upward and changing consumption patterns. In the past 20 years, 80 percent of Asia's consumption growth came from the lower income tiers of the consuming class as new entrants joined. In the next decade, 80 percent of that growth could come from higher-income consumers. Movement within the consuming class is likely to be a larger driver of consumption growth than movement into it.

**From people moving to cities to diversifying segments within cities.**

Many companies have rightly focused on the urban consumer in Asia as mass urbanization has driven consumption growth. Cities are still expected to account for more than 85 percent of consumption growth in the next decade, but the focus needs to turn to increasingly diverse consumer cohorts within cities that are driving that growth. As social, demographic, and technological shifts collide, ten consumer shifts stand out across Asia. One is the rise of single-person households, which already account for almost one-third of households in advanced Asian economies and are fueling new products and services catering to a growing singles economy. Another is seniors (aged over 60), whose number is expected to grow by about 40 percent from 2020 to 2030. By then, almost all seniors in Japan and South Korea are expected to be online—the Insta-granny generation. Another shift is toward eco-consumption amid concern about the environment.

**From income-driven S-curves to market-specific consumption**

**curves.** In some cases, income may no longer be a barrier to consumption as digitization, cost innovation, and new business models democratize access. Income-driven S-curves are mutating, and new market-specific curves are playing out for different categories of goods and services. Three potential changes to S-curves are: access curves where income ceases to be a good predictor of consumption patterns, for instance in shared mobility and mobile gaming; breakaway curves that unfold in cases in which new consumption categories emerge, as in electric vehicles; and shifting S-curves, where supply or demand shocks lead to a shift in the position of the curve, the smartphone being an example.

**Within sectors, between 15 and 65 percent of value could shift to market-specific consumption curves.**

As a result of the shifts identified, a significant proportion of demand is migrating to dynamic consumption curves, but the size of this shift is likely to differ by sector. In automotive, the shift could be as high as 65 percent of value. In financial services, 15 to 25 percent could shift. The relative importance of the ten consumption shifts may differ by sector, too.

**It is time for companies to redraw their consumer growth map of Asia.**

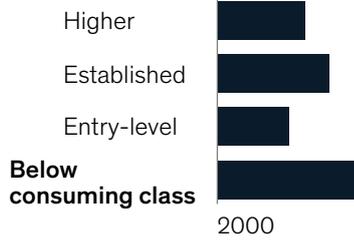
Companies need to understand how growth may play out in their markets and redraw their map of growth. They should identify new growth angles relevant to their business and take into account dynamic consumption curves. In the face of rapid change and increasing diversity, companies should consider adopting a more agile operating model, including bolder resource reallocation, and adopt an open strategy based on building networks and partnerships, and participating in, or leading, ecosystems.

# Asia's new consumer landscape

From people moving **into** the consuming class ...

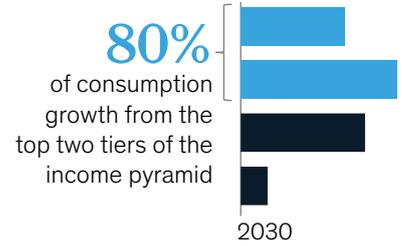
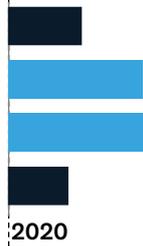
... to moving **within** the consuming class

Consuming class



**80%**  
of consumption growth from the two middle tiers of the income pyramid

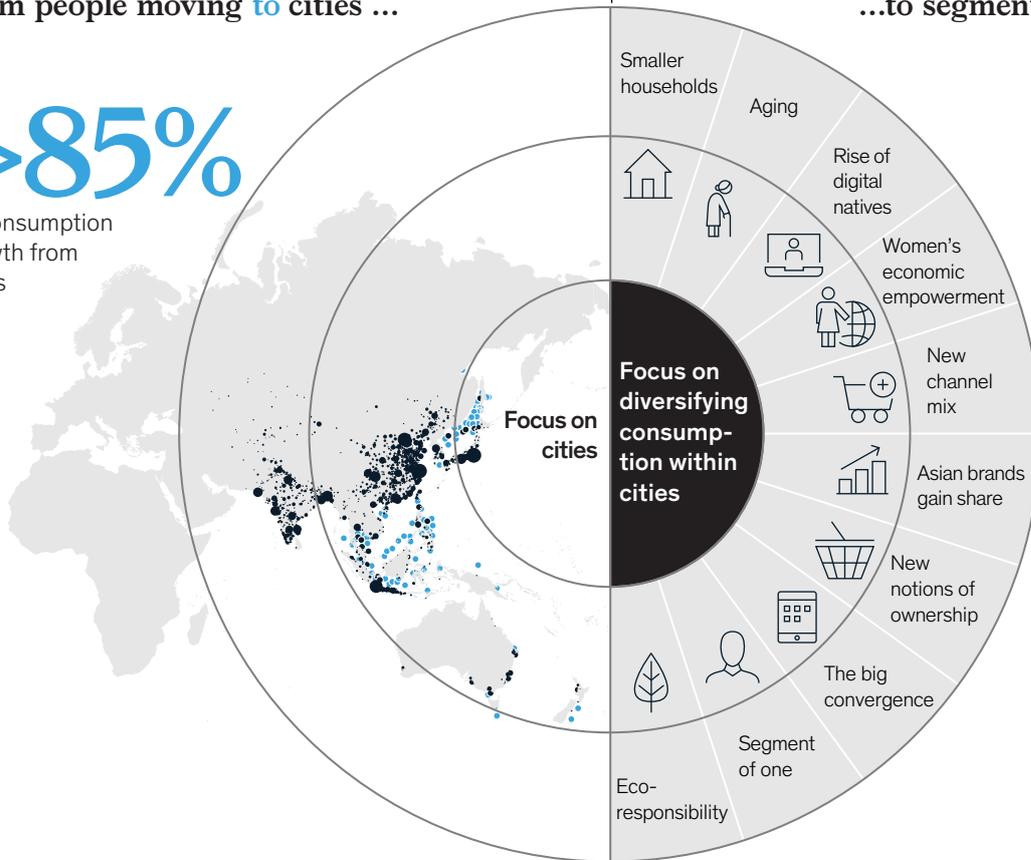
Gaining share



From people moving **to** cities ...

...to segmenting **within** cities

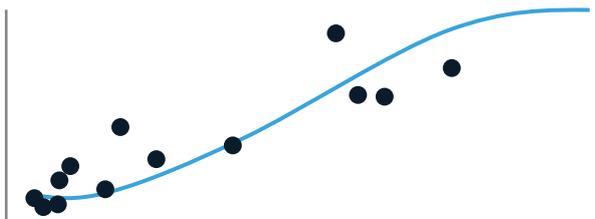
**>85%**  
of consumption growth from cities



**10**  
new growth angles to consider

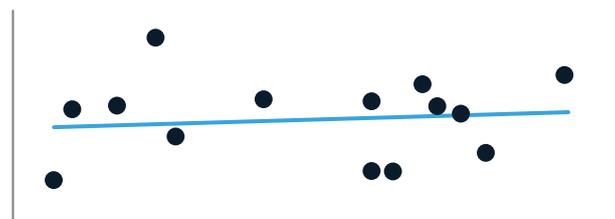
From consumption following **income-driven S-curves** ...

Income is a good predictor of penetration



... to following **new** market-specific consumption curves

Income-driven S-curves are mutating and new curves are emerging



It is time for companies to redraw their consumer growth map of Asia by identifying new growth angles and taking account of new consumption curves



# Beyond income: Redrawing Asia's consumer map

## 1. Surging up the income pyramid

The scale of Asia's consumer markets is undoubtedly a major factor in the thinking of companies and investors, and this remains justified. Miss Asia and you could miss half the global consumption story over the next ten years. Asian consumers are expected to account for half of global consumption growth in the next decade, equivalent to a \$10 trillion opportunity.<sup>1</sup> Globally, one of every two upper-middle-income and above households is expected to be in Asia, and one of every two completed consumer transactions is likely to be made by consumers in the region (Exhibit 1).

<sup>1</sup> McKinsey's Global Growth Model simulations show a range of 45 to 50 percent of global consumption growth coming from Asia over the next decade, but growth outcomes will depend on the shape of the recovery from the pandemic and other macroeconomic factors in different geographies. We largely use McKinsey's baseline scenario, which assumes that Asia's long-term growth trajectory is not materially affected by the pandemic; this is consistent with a ten-year consensus of views formed before the pandemic by multiple institutions, including the Economist Intelligence Unit, the International Monetary Fund, Oxford Economics, and IHS Markit.

Exhibit 1

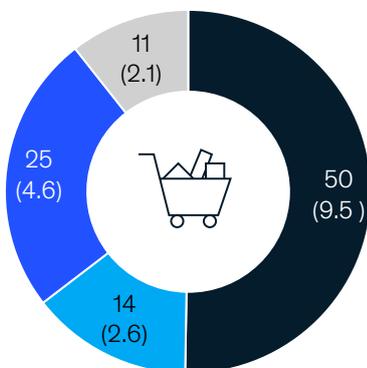
### Asia's consumers are likely to be at the forefront of global consumption growth in the next decade.

Share of global figure, %

■ Asia<sup>1</sup> ■ Europe ■ North America ■ Rest of world

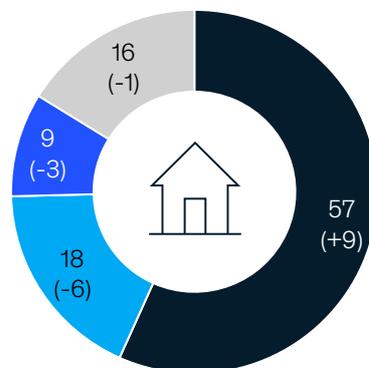
#### Consumption growth

% share of consumption growth (\$ trillion), 2020–30



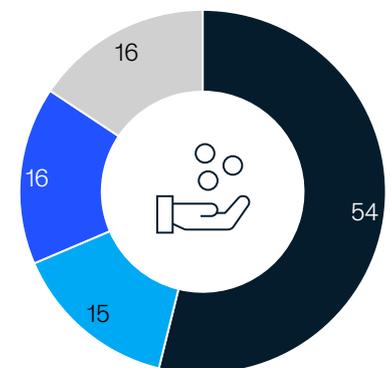
#### Households with upper-middle income and above

% share of households with annual income >\$22,000, 2011 PPP<sup>2</sup> (change 2020–30, percentage points)



#### Transactions

% share of B2C and C2C transactions, offline and online, 2025



1. Includes Australia and New Zealand.

2. Purchasing power parity in 2011 international dollars.

Note: Figures may not sum to 100% because of rounding.

Source: McKinsey Cityscope v4.1; McKinsey Global Payments Map; McKinsey Global Institute analysis

The COVID-19 pandemic has had a negative impact on the lives and livelihoods of consumers across Asia, and caused the first reversal of the downward trend in the poverty rate since 2015.<sup>2</sup> The recovery from the pandemic-induced global economic shock in 2020 was still uneven in 2021, depending not only on the economic structure of economies and government policy, but also on approaches to economic lockdowns and access to vaccines—the latter described by the International Monetary Fund as the “principal fault line” along which the global recovery splits. In 2021, the short-term outlook remained uncertain for all economies.<sup>3</sup> In the long run, Asia still has solid potential to continue its growth trajectory. This research attempts to look beyond the pandemic, focusing on the factors that may influence long-term consumption growth in Asia up to 2030.

Asia's large prospective share of global consumption growth is one aspect of the region's increasing role in the global economy. Previous McKinsey Global Institute research found that Asia could generate more than half of global GDP by 2040, up from about one-third in 2000 (in purchasing power parity terms). In 2019 research on global flows, MGI found that powerful global and, notably, regional trade networks were propelling Asia to an increased share of world trade. Asia's share of global goods trade rose from 25 percent in 2000–02 to 33 percent in 2015–17.<sup>4</sup> In June 2020, MGI research highlighted the growing global role of corporate Asia. A huge wave of capital investment enabled Asian companies to scale up, with \$1 of every \$2 in new global investment flowing into the region. As a result, Asian companies accounted for 43 percent of the world's largest companies by revenue.<sup>5</sup> In December 2020 research focused on technology in Asia, MGI found that the region had the largest shares of global growth in key technology metrics in the past decade—52 percent of global growth in technology company revenue, 43 percent of global growth in startup funding, 51 percent of global growth in R&D spending, and 87 percent of global growth in patents filed. Asian consumers have arguably embraced technology more quickly than consumers in any other region.<sup>6</sup>

Although the outlook for consumption in Asia is robust, business investors and governments in the region will need to consider the very real challenges the region is facing, not least coping with the disruptions and potentially long-term aftershocks of the COVID-19 pandemic that may introduce discontinuities in long-term consumer behaviors (see Box 1, “Robust consumption growth in Asia cannot be taken for granted”).<sup>7</sup>

---

<sup>2</sup> *Asian Development Outlook 2021: Financing a green and inclusive recovery*, Asian Development Bank, April 2021.

<sup>3</sup> *Fault lines widen in the global recovery*, *World Economic Outlook Update*, International Monetary Fund, July 2021.

<sup>4</sup> *The future of Asia: Asian flows and networks are defining the next phase of globalization*, McKinsey Global Institute, September 2019.

<sup>5</sup> The research also found that growth in scale and revenue had not translated into higher economic profit overall. Globally, returns have fallen because of an abundance of cheap capital. Around the world, economic profit fell, from \$726 billion in 2005–07 to a loss of \$34 billion in 2015–17. Asia experienced a swing in economic profits from \$150 billion to a loss of \$207 billion. This was more than half the global deterioration. See *The future of Asia: Decoding the value and performance of corporate Asia*, McKinsey Global Institute, June 2020.

<sup>6</sup> *The future of Asia: How Asia can boost growth through technological leapfrogging*, McKinsey Global Institute, December 2020.

<sup>7</sup> For more on consumption in the age of COVID-19, see, for instance, Udo Kopka, Eldon Little, Jessica Moulton, René Schmutzler, and Patrick Simon, “What got us here won't get us there: A new model for the consumer goods industry,” July 2020, McKinsey.com; and *The consumer demand recovery and lasting effects of COVID-19*, McKinsey Global Institute, March 2021.

## Robust consumption growth in Asia cannot be taken for granted

Asia's growth potential is accompanied by risks. The way businesses, investors, consumers, and governments work together to address sources of stress is likely to have a profound impact on Asia's consumer markets and influence whether they reach their full potential. Two challenges in particular could influence the outlook for, and patterns of, consumption.

### Income and wealth inequality.

Incomes across Asia are rising, and fewer households are experiencing scarcity. However, a large number of lower-income households remain vulnerable. Even in 2030, as many as 1.4 billion consumers may continue to be below the consuming class (see Box 2 for a definition of the consuming class). Inequality continues to be a significant factor in Asia. In 2019, consumers in Asia in the bottom 50 percent of the income distribution had a share of total income of between 12 and 20 percent, according to the World Inequality Database, while those in the top 10 percent of the income distribution accounted for 33 to 57 percent of total income.

However, patterns vary extensively in the region (previous MGI research highlighted “four Asias”—distinct blocs of economies within the region, each with different characteristics in the way they interact with one another and the rest of the world).<sup>1</sup> Since 1990, the share of income of consumers at the bottom

of the pyramid has fallen in many Asian economies, including most of Advanced Asia (including Australia, Japan, and South Korea). In 2019 in these countries, the bottom 50 percent of the income distribution controlled two to five percentage points less of total income than they did in 1990. A similar phenomenon is observed in China and India, where the share has dropped by seven percentage points. The pattern is reversed in many economies of Emerging Asia, including Malaysia, the Philippines, Thailand, and Vietnam, with the bottom 50 percent by income increasing their share of total income between 1990 and 2019.<sup>2</sup>

Wealth inequality is arguably even more pronounced in the region. In most Asian countries, the bottom 50 percent of the population was estimated to own less than 15 percent of overall wealth, and as little as 3 percent in India and Indonesia in 2019.<sup>3</sup> Inequality may have been exacerbated in 2020 because of the COVID-19 pandemic, which was regressive, hitting low-income households the hardest. Even as economies recover, inequality may increase further.<sup>4</sup> The Asian Development Bank estimates that the number of people living in poverty (defined as living with less than \$3.20 a day in purchasing power parity terms) in Asia may have increased by more than 170 million in 2020 due to the effects of the pandemic.<sup>5</sup>

**Climate disruption.** Asia is on the front line of climate risk, accounting for two-thirds of the global risk of economic disruption resulting from changes in the natural world, according to MGI research.<sup>6</sup> In Asia, by 2050, \$2.8 trillion to \$4.7 trillion of GDP could be at risk annually due to labor productivity affected by extreme heat and humidity, and \$1.2 trillion of physical capital stock could be damaged by riverine flooding in a given year.<sup>7</sup> The economic damage arising from these phenomena may curtail consumption as consumer incomes are constrained by lower economic growth. Over coming decades, most Asians may be affected in some way, changing the way they consume as a result—for instance, modifying their purchasing habits to buy more sustainable options, or spending more time indoors to avoid air pollution or extreme heat. Climate risk is likely to disproportionately fall on those with lower incomes, potentially reinforcing rising inequality. Urban consumption is particularly at risk. Over the next ten years, 40 percent of Asia's urban consumption growth is projected to be driven by 50 cities, and 45 of these are at high risk of two or more types of climate disruption, according to ThinkHazard!<sup>8</sup> In India, for instance, the cities of Bangalore, Chennai, Delhi, and Kolkata could lose an additional five to ten percentage points of outdoor working hours due to extreme heat and humidity.<sup>9</sup>

<sup>1</sup> The four Asias are: Advanced Asia, including Australia, Japan, New Zealand, Singapore, and South Korea; Emerging Asia, including Indonesia, Malaysia, the Philippines, Thailand, and Vietnam; India and Frontier Asia, including Bangladesh and Pakistan; and China. Except when indicated, statistics for China only include mainland China, and exclude Hong Kong SAR, Macau SAR, or Taiwan. For more detail on the four Asias, see *The future of Asia: Asian flows and networks are defining the next phase of globalization*, McKinsey Global Institute, September 2019.

<sup>2</sup> World Inequality Database. Patterns vary extensively country by country, in different time horizons. Inequality is a complex topic and may be measured using different metrics.

<sup>3</sup> *Global wealth databook 2019*, Credit Suisse, October 2019.

<sup>4</sup> *Reversals of fortune, Poverty and Shared Prosperity Series*, World Bank, October 2020, worldbank.org.

<sup>5</sup> *Asian Development Outlook 2021: Financing a green and inclusive recovery*, Asian Development Bank, April 2021.

<sup>6</sup> *Climate risk and response in Asia*, McKinsey Global Institute, November 2020.

<sup>7</sup> *Ibid.* All estimates based on RCP 8.5.

<sup>8</sup> ThinkHazard! is a World Bank tool that provides information about the hazard level of river flood, drought, cyclone, coastal flood, tsunami, volcano, and landslide hazard in different cities. The types of climate risk, specifically, are cyclone or tsunami; extreme heat; water scarcity; wildfires; floods; and earthquakes.

<sup>9</sup> By 2050, based on an RCP 8.5 scenario. See Jonathan Woetzel, Dickon Pinner, Hamid Samandari, Rajat Gupta, Hauke Engel, Mekala Krishnan, and Carter Powis, “Will India get too hot to work?,” McKinsey Global Institute, November 2020, McKinsey.com.

## Eighty percent of consumption growth is seen coming from the upper tiers of the income pyramid in the next decade

The conventional narrative about the growth of Asia has centered on the growth of the consuming class (see Box 2, “Defining the consuming class”). In the past two decades, an increasing number of people joined the consuming class. In 2000, only 15 percent of the population had done so. By 2020, this figure was 45 percent. In the next decade, this shift is seen continuing, and up to 70 percent of Asia’s population could belong to the ranks of the consuming class by 2030. This is a significant reversal, from three billion people with incomes too low to make them members of the consuming class to three billion with sufficiently high incomes to be in that class (Exhibit 2).

### Box 2

#### Defining the consuming class

The threshold for an individual to join the consuming class in our research is having a disposable income of more than \$11 a day at 2011 purchasing power parity (PPP), an amount sufficient to enable households to pay for necessities such as food, shelter, and clothing, as well as discretionary goods and services. At this threshold, spending on many consumer goods begins to rise rapidly. This definition is broadly aligned with the work of others who use the term “middle class” broadly interchangeably with “consuming class.”<sup>1</sup> Previous MGI research discussed extensively the growth of the consuming class as a major driver of global consumption growth.<sup>2</sup>

Within the consuming class, it is helpful to differentiate between different tiers of income. In this research, we use three thresholds. These are not absolute ways of defining different groups, nor do specific cutoff points affect our broad conclusions regarding the shift upward in the income pyramid.<sup>3</sup> We opted for three tiers because they proved sizable enough to warrant distinguishing them, and this approach enables us to explore the dynamics of movement within the consuming class. The thresholds we considered, all in 2011 PPP terms, are: (1) entry-level consuming class, with daily spending of between \$11 and \$30; (2) established consuming class, with daily spending of \$30 to \$70; and (3) higher consuming class, with daily spending of more than \$70.<sup>4</sup>

In some contexts, for instance identifying pockets of growth within cities for given categories, a household view of income levels is a better tool. For some categories, the unit of consumption is often the household rather than the individual, such as household appliances or vehicles. We use such a household analysis in chapter 2. To create a household view of income levels, the McKinsey Cityscope database takes a tiered view of consumers by household income levels with four categories adjusted to 2011 purchasing power parity levels: annual household income below \$8,000; between \$8,000 and \$22,000; from \$22,000 to \$80,000; and above \$80,000. In chapter 2, we refer to households in the \$22,000-to-\$80,000 bracket as upper-middle-income households and to those with annual incomes of more than \$80,000 as high-income households. Given different underlying modeling methodologies and assumptions about household sizes, these tiers do not correspond precisely to the different income levels within the consuming class. However, they can be considered closest to the established consuming class and higher consuming class, respectively.

<sup>1</sup> See Homi Kharas, *The unprecedented expansion of the global middle class: An update*, Global Economy & Development working paper number 100, Brookings Institution, February 2017. In Surjit S. Bhalla, *Second among equals: The middle class kingdoms of India and China*, Peterson Institute for International Economics, 2007, the threshold was \$10 in 2005 PPP terms, roughly equivalent to \$11 in 2011 PPP terms. Also see Rakesh Kochhar, *The pandemic stalls growth in the global middle class, pushes poverty up sharply*, Pew Research Center, March 2021.

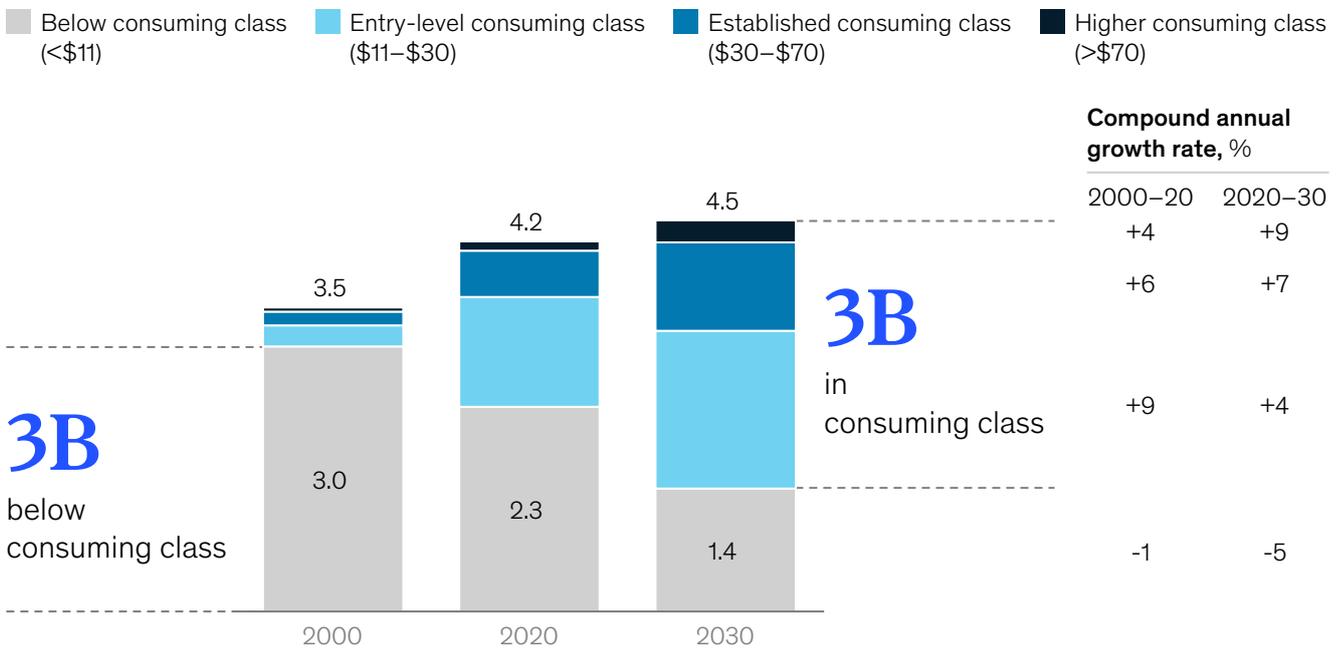
<sup>2</sup> *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012.

<sup>3</sup> We tested different income cutoff points as alternatives to the ones discussed in Box 2. The conclusions of the analysis are not particularly sensitive to the way tiers within the consuming class are defined, and a similar shift of growth to higher-income levels is observed.

<sup>4</sup> For comparison, \$30 represents roughly the level of income that 75 percent of consumers in high-income countries live on, and is the income of the top 20 percent of all consumers globally; \$70 a day corresponds roughly to the top 5 percent of all consumers globally.

**A historic 30-year reversal is under way, from three billion below the consuming class to three billion in the consuming class.**

**Population in Asia by daily spending group, billion people**  
(Daily spending, 2011 international \$, PPP)

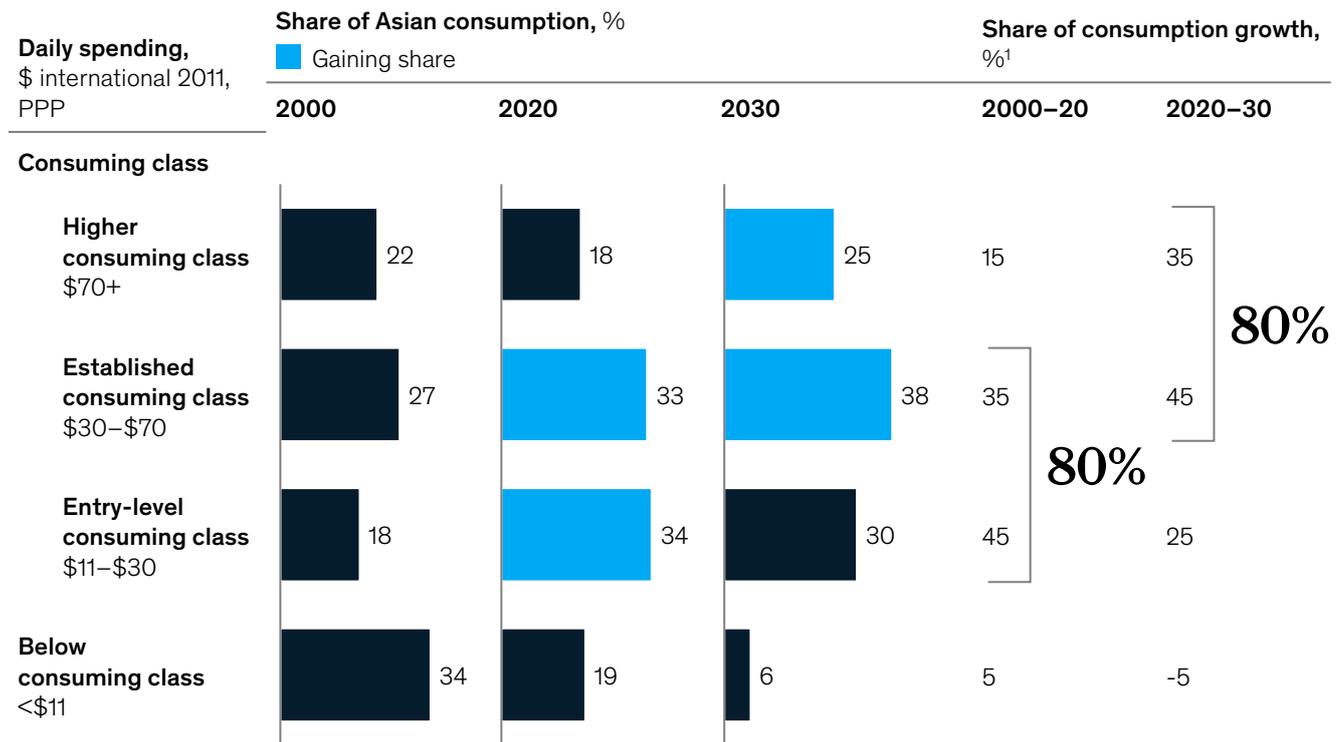


Note: Figures may not sum to 100% because of rounding.  
Source: MarketPro by World Data Lab; McKinsey Global Institute analysis

Moreover, a sharp shift is under way in which groups of consumers will drive growth over the next decade. Over the past decades, only a relatively small proportion of the new entrants to the consuming class reached middle- and upper-income tiers, but this is changing. Over the next decade, the growth rate of consumers entering the highest income tier (more than \$70 a day) of the consuming class may almost double, while the growth rate of consumers at the consuming class’s entry-level (spending between \$11 and \$30) could decrease by more than half.

This shift in the center of gravity of the income pyramid is transforming consumption growth in the region. Over the past two decades, 80 percent of all growth came from consumers in the two lower income tiers of the consuming class; over the next decade, 80 percent of growth could come from the higher income tiers (Exhibit 3). Consumers in the top income tiers of the pyramid are seen driving not only growth in consumption but also patterns of consumption, reflecting the fact that their rising purchasing power should enable previously unmet needs to be fulfilled. Companies serving Asian consumer markets need therefore to reexamine what they think they know about the nature of growth in the next decade.

**In the next decade, 80 percent of consumption growth may come from the top two tiers of the income pyramid.**



1. Rounded to nearest 5 percent.  
Source: MarketPro by World Data Lab; McKinsey Global Institute analysis

**Income matters but is no longer sufficient to understand dynamic Asian consumption patterns**

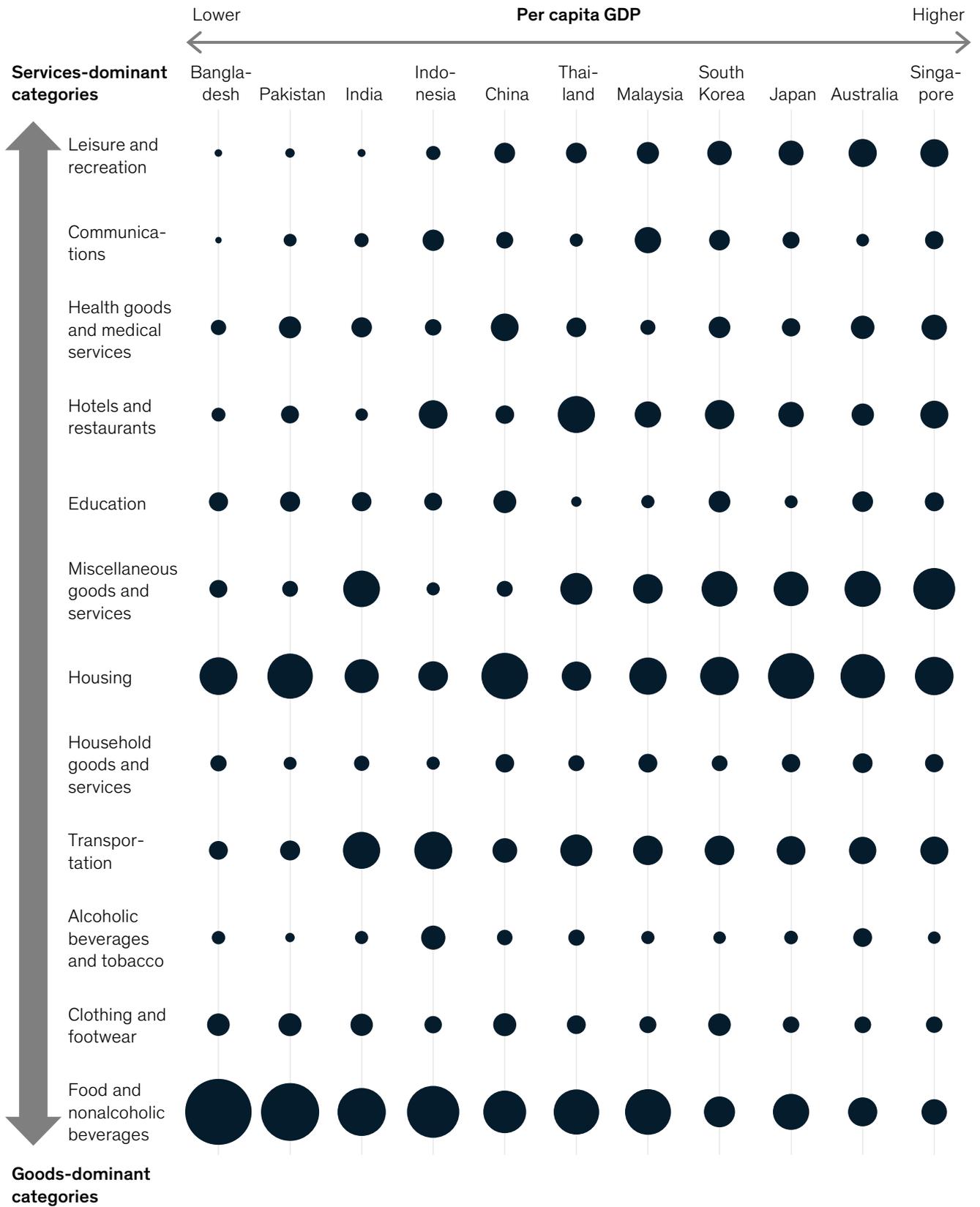
The conventional narrative of development postulates that rising incomes lead to changes in consumption patterns. Economies with higher levels of income tend to shift their share of wallet away from basic items such as food and beverages to discretionary goods and services, including leisure, communications, healthcare, and education (Exhibit 4). This shift has repeatedly been seen as economies develop and incomes rise. Taking China as an example, in 2000, 33 percent of expenditure went to food and beverages. By 2019, this share had fallen by 11 percentage points while spending on other categories increased: by six percentage points in the case of transport and vehicles, by three percentage points for health goods and medical services, and by two percentage points for hotels and restaurants.

However, increasingly incomes are an incomplete way of understanding Asia’s consumption profiles. Countries at similar income levels, such as the Philippines and Vietnam, may have very different consumption levels. Vietnam has more than three times the penetration intensity of ride hailing than the Philippines, for instance, but is on a par on this measure with Malaysia, which has much higher levels of per capita income. Conversely, the average Filipino purchases three times the number of jeans as their Vietnamese peers in a year, broadly in line with Malaysian consumers. These variations in consumption patterns are prevalent across Asia. Despite similar per capita incomes, consumers in Japan and South Korea have very different volumes of packaged food consumption—a 70 percent gap separates them—and South Koreans are much closer to their Malaysian peers despite very different income levels. Similar disparities are observed in categories as diverse as smartphone penetration and consumption of premium skin-care products.

Exhibit 4

**As countries develop, consumption shifts from goods-dominant categories to services-dominant categories.**

Proportion of consumption expenditure, 2020, %



Note: Figures may not sum to 100% because of rounding.

Source: Euromonitor International Limited; Income and Expenditure 2021 edition, World Bank; McKinsey Global Institute analysis

---

Asia's consumption is growing strongly, and companies and investors need to factor this region into their strategic thinking. But while rising incomes remain an important factor, we are now in the middle of a new chapter whose theme is diversity of consumption patterns. Beyond incomes, Asian companies need to consider how consumers are diversifying rapidly in an era of significant social and technological change. How well do they know the Asian consumer of today and tomorrow? In the next chapter, we take a closer look.

## 2. Ten consumer shifts that matter

Asia is incredibly diverse. This is a region where as many as 2,300 languages are spoken, economic and political systems vary, and the per capita income of Singapore at more than \$100,000 is 25 times higher than the per capita income of \$4,000 in Nepal in purchasing power parity terms.<sup>8</sup> But a combination of social, demographic, and technological change is making this diverse region even more varied, and this is true for its consumer markets.

In the past, companies wishing to understand the granularity of growth in Asia mostly focused on which cities would experience the most rapid growth. Cities will continue to be the main source of the region's consumption and consumption growth, and, as before, companies need to track which urban areas offer the most promising markets. But a new focus is now needed to take account not only of which city is likely to offer the most promising opportunities, but of which consumers within each city. Sources of consumption growth are diversifying and segmenting. A consumer might be a young Japanese person living alone whose social life is largely online; a South Korean "Insta-granny," or senior citizen newly conversant in social media; a high-spending—and high-borrowing—Chinese Gen Zer; or a Filipina who has succeeded in securing a better-paid job and has more say over household financial decisions. In this chapter, we look first at the evolving pattern of urban consumption in Asia, and then describe ten consumer shifts that could provide new growth angles.

### **Consumption growth will continue to be concentrated in cities, but the urban consumption map is changing**

Over the next decade, more than 85 percent of consumption growth in Asia is expected to originate in cities. However, consumption is seen growing at differing rates even within urban Asia. The top 250 cities for consumption in 2020 are expected to contribute about 75 percent of urban consumption growth over the next decade. Within this group, it is not the top 50 cities that are likely to post the highest consumption growth, but the 200 below them—so-called middleweight cities—whose consumption is seen growing two percentage points faster (Exhibit 5).

Urbanization has, in recent years, been a driving force of Asia's urban consumption growth. Over the past decade, the proportion of Asia's urban population increased from 43 to almost 50 percent as city populations swelled by 430 million people. In the next decade, this phenomenon is likely to continue to play out, albeit at a slightly slower rate; the share of the population living in urban areas is expected to rise to 55 percent. In total by 2030, about 2.5 billion people may live in urban areas.<sup>9</sup> However, urban population growth is only part of the city growth story. Over the next ten years, only about 36 percent of growth is expected to be driven by population growth. The remaining 64 percent is seen coming from urban consumers growing richer and consuming more on a per capita basis (Exhibit 6). Previous MGI research highlighted that, across the world, the share of growth driven by population is declining while the share of growth driven by per capita consumption is increasing.<sup>10</sup>

---

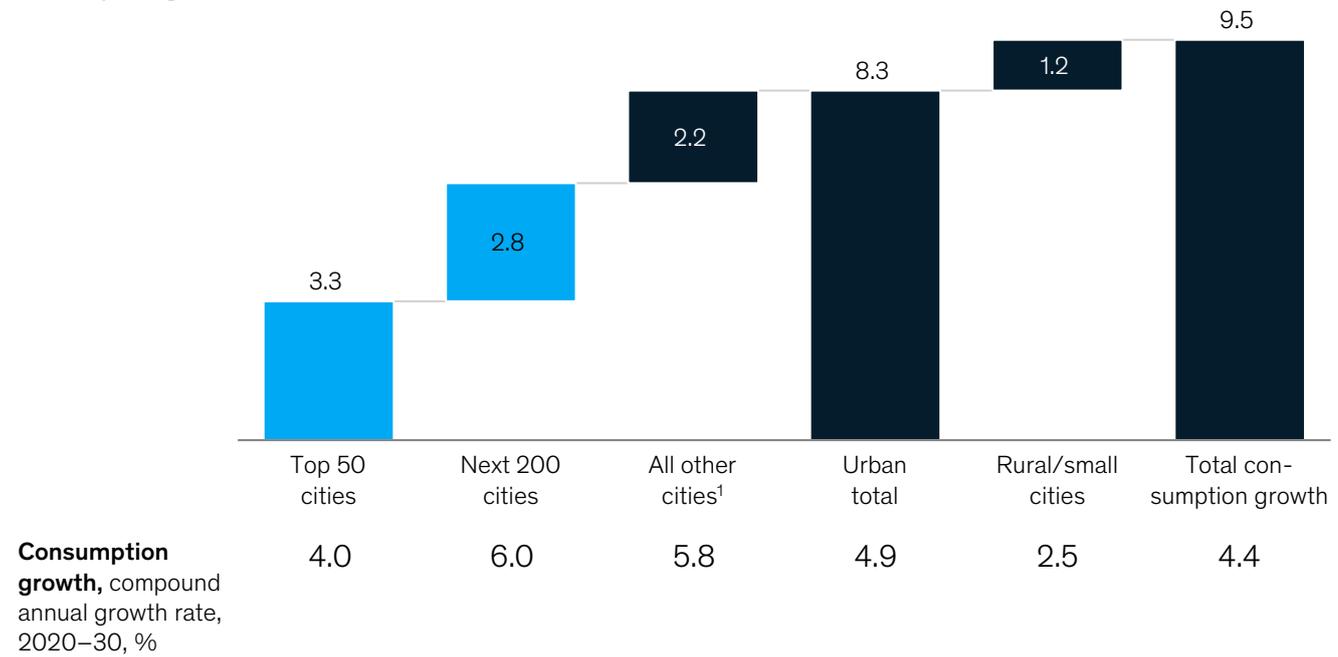
<sup>8</sup> World Bank 2020 per capita GDP in purchasing power parity terms in current international US dollars. *Major languages spoken in Asia*, World Atlas, [worldatlas.com](http://worldatlas.com).

<sup>9</sup> Statistics are for 2018 and come from the United Nations' Department of Economic and Social Affairs, Population Division. Also see *World urbanization prospects: The 2018 revision*, United Nations, 2019.

<sup>10</sup> *Urban world: The global consumers to watch*, McKinsey Global Institute, March 2016.

**Cities still matter: The top 50 may account for ~40 percent of Asia’s urban consumption growth and the top 250 for ~75 percent.**

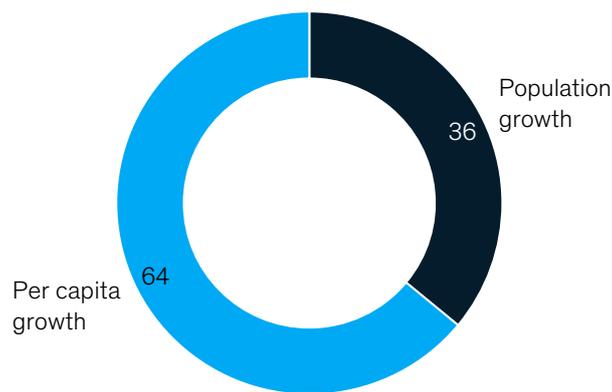
Consumption growth, 2020–30, \$ trillion



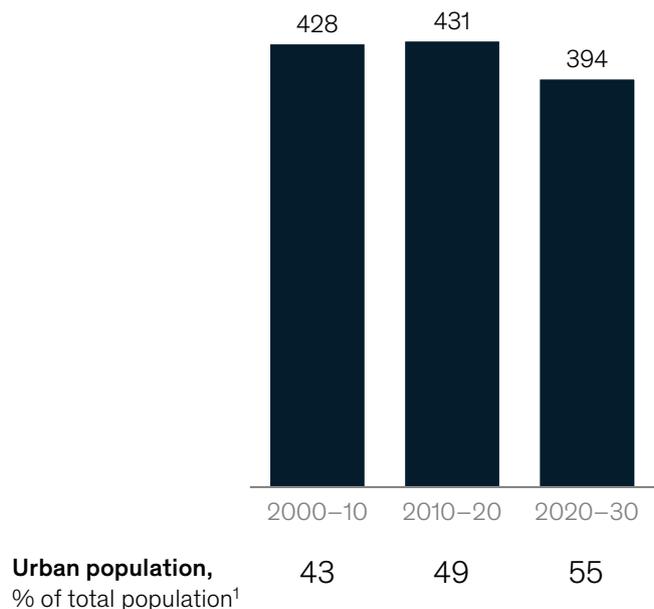
1. ~1,250 cities in total.  
 Note: Top cities by 2020 consumption. Figures may not sum to 100% because of rounding.  
 Source: McKinsey Cityscope 4.1; McKinsey Global Institute analysis

**Urban consumption growth is likely to be largely driven by per capita increases as urbanization decelerates slightly.**

Urban consumption growth in Asia, 2020–30, %



Urban population growth in Asia, million



1. At the end of the decade (eg, 43% in 2010).  
 Note: Figures may not sum to 100% due to rounding.  
 Source: UN World Urbanization Prospects; McKinsey Cityscope 4.1; McKinsey Global Institute analysis

Companies and investors wanting to understand their map of growth will therefore need to have a nuanced view of which cities are likely to be in the vanguard of consumption growth of different income segments. Furthermore, they will need to understand the new growth angles that may drive increased per capita consumption growth among consumers reaching the higher tiers of the income pyramid.

Households are becoming more prosperous across Asia. Two types of household require special attention. The first is high-income households that make more than \$80,000 a year. The second is the next income tier of upper-middle-income households that make between \$22,000 and \$80,000 a year in purchasing power parity terms (Exhibit 7).<sup>11</sup>

Looking first at trends in the high-income bracket, Asia today is home to 30 percent of the world's high-income households, and that could rise to 40 percent. It is notable that Asia, which today has fewer high-income households than the United States, could in ten years' time have more than double the US total. However, growth will vary by city and geography. Tokyo is seen remaining the city with the most high-income households, but the number of such households is set to rise rapidly in some of the major cities of Emerging Asia.<sup>12</sup> In Vietnam, for instance, the number of these households could quadruple in Hanoi and Ho Chi Minh City. By 2030, 20 cities are seen having more than one million high-income households each. China's megacities are set to experience growth in their high-income households equivalent to the growth in entire countries, adding more such households than exist in Japan today; Shanghai is expected to add about 3.0 million high-income households, not far short of the 3.2 million increase expected in the whole of Japan. India could have the third-largest number of high-income households after the United States and China, and Mumbai is likely to be the fourth-ranked city in Asia for such households.<sup>13</sup>

Looking next at upper-middle-income households, Asia's share of the world's total could rise from 50 to 60 percent. China, India, and Indonesia are experiencing the most growth in these households. In China, the number of upper-middle-income households is expected to increase by almost 50 percent. In India and Frontier Asia, the number of upper-middle-income households is expected to double; within this group of Asian economies, the Bangladesh capital, Dhaka, is seen having the highest growth, with the addition of 2.4 million such households. Again, Emerging Asia stands out as incomes rise; in these economies, three new cities could hit the threshold of one million consuming households: Bekasi, Bogor, and Tangerang, all in Indonesia. Most cities in Advanced Asia are expected to have fewer upper-middle-class households as rising incomes lift so many into the high-income bracket.

---

<sup>11</sup> See Box 2 in chapter 1 for a discussion of different household income brackets.

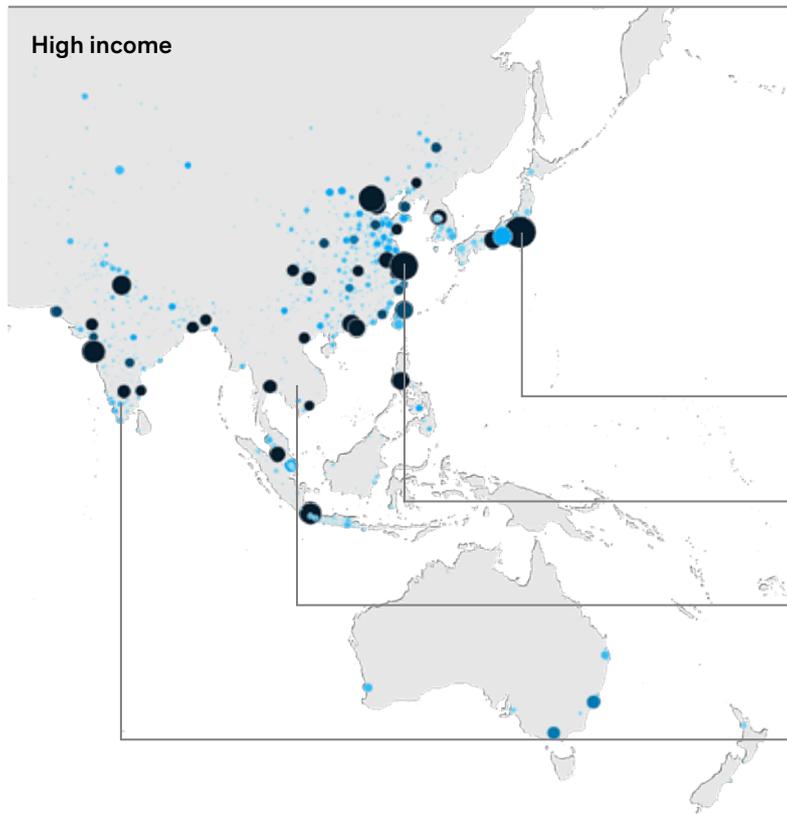
<sup>12</sup> Previous MGI research on the future of Asia defined "four Asias": (1) Advanced Asia, including Japan, South Korea, Australia, New Zealand, and Singapore; (2) Emerging Asia, including, among others, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam; (3) India and Frontier Asia, including, among others, Bangladesh, Kazakhstan, and Pakistan; and (4) China. For more detail, see *The future of Asia: Asian flows and networks are defining the next phase of globalization*, McKinsey Global Institute, September 2019.

<sup>13</sup> Cities ranked between 50 and 250 in 2020 consumption in Asia.

## What's your map?

● Bubble size = **Households, 2030**

**Growth, 2020–30, households** Low  High



### High income

#### For companies targeting high-income households, Advanced Asia continues to reign, but China and India are catching up

Distribution of high-income households, 2030<sup>1</sup>

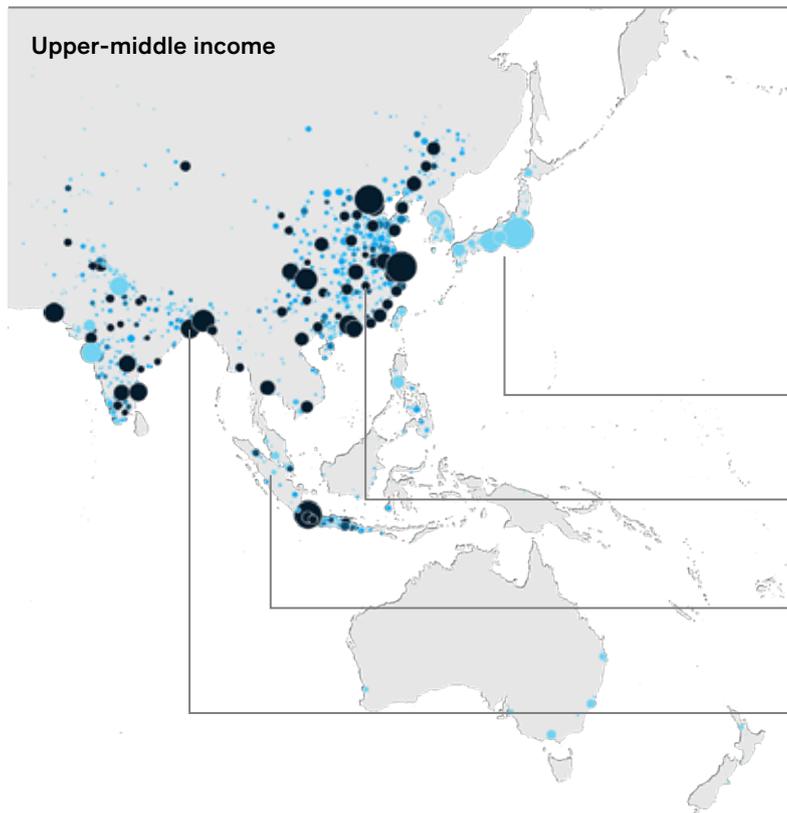
Today, Asia has about the same number of high-income households as the United States; in 2030, it may almost double the number. By then, Asia could have more than 20 cities with over 1 million high-income households

In Advanced Asia, Tokyo is projected to continue having the most high-income households in Asia (5.5 million)

China's megacities add country-size growth in high-income households with Shanghai adding 3.0 million vs Japan's 3.2 million

In Emerging Asia, cities including Bangkok, Jakarta, and Manila may roughly double their number of high-income households, and Hanoi and Ho Chi Minh City even quadruple them

India may become No. 3 globally for number of high-income households, after only United States and China



### Upper-middle income

#### For companies targeting upper-middle-income households, China, India, and Indonesia show the largest clusters of growth

Distribution of upper-middle-income households, 2030<sup>2</sup>

By 2030 there could be over 60 cities with >1 million upper-middle-income households, mostly in China, India, and Indonesia

Cities in Advanced Asia are “shrinking upward,” with an expected 4 million fewer upper-middle-income households

Growth in China is distributed, with more than 150 cities adding >100,000 upper-middle-income households

In Emerging Asia, 3 “new kids on the block”—Bekasi, Bogor, and Tangerang—could have >1 million upper-middle-income households

India and Frontier Asia are likely to become center of upper-middle-income household growth, doubling their number; Dhaka has the highest growth at 2.4 million

1. Annual household income >\$80,000 2011 international \$ PPP.  
 2. Annual household income \$22,000–\$80,000 2011 international \$ PPP.  
 Source: McKinsey Cityscope 4.1; McKinsey Global Institute analysis

## As social, demographic, and technological disruptions collide, Asia's consumers are diversifying; ten consumer shifts stand out

Asia has long been an extremely diverse region—economically, socially, and culturally. As sociodemographic change coincides with accelerating technological change, new forms of consumer behavior are emerging that in some respects set the region's consumers apart from their counterparts in other regions. Several shifts that are already emerging could become more prominent factors in the region's consumption; ten shifts could offer new angles of growth for companies serving Asian consumers (Exhibit 8). In the rest of this chapter, we look at these ten new growth angles in turn, explain how they are playing out in different parts of Asia, and discuss new growth opportunities. The way these consumer shifts play out will, to an extent, be shaped by public policy and regulation (see Box 5, "Public policy may influence consumer shifts," at the end of this chapter).

### Households are shrinking, and single-person households already account for 15 to 35 percent of the total in Advanced Asia and China

Across Asia, the average size of households is shrinking. Most countries have experienced a decline in the past 20 years. In Indonesia, the average household size declined by 10 percent, and in India, Japan, and South Korea by about 15 percent. In China, between 1999 and 2020, the average size of household declined by almost 30 percent, from 3.6 people to 2.6 people.<sup>14</sup> Single-person households are becoming a significant segment across Asia. Almost one-third of households in Advanced Asia and more than 15 percent in China are already single-person ones (Exhibit 9). A closely related phenomenon is the rise of single adults. In China, their number topped 240 million in 2018, and they are driving a robust "singles economy."<sup>15</sup>

<sup>14</sup> Reference years vary by country, as noted in Exhibit 9.

<sup>15</sup> "Across China: Singles economy spurs new consumption in China," [Xinhuanet.com](http://Xinhuanet.com), May 4, 2021.

Exhibit 8

### As Asia's consumption landscape diversifies, ten new angles of growth stand out.



#### Smaller households

~30% of households in Advanced Asia are single-person ones



#### Asian brands gain share

Asian brands have 65–95% share across CPG, electronics, and automotive; regional brands gaining share



#### Aging

Seniors' consumption will grow 1.5–2x faster than the consumption growth of the general population



#### New notions of ownership

>60% of adults in Australia, China, and Japan with online access have at least 1 subscription service



#### Rise of digital natives

May represent 40–50% of total consumption with greater willingness to take on consumer debt



#### The big convergence

Super apps emerged in China but are now prevalent across Asia



#### Women's economic empowerment

30% additional consumption could be at stake



#### Segment of one

>45% of surveyed consumers in China, India, and Thailand say they share their data for personalization, compared with <30% of those surveyed in Europe



#### New channel mix

E-commerce growing faster than any other format; eB2B disruption emerging

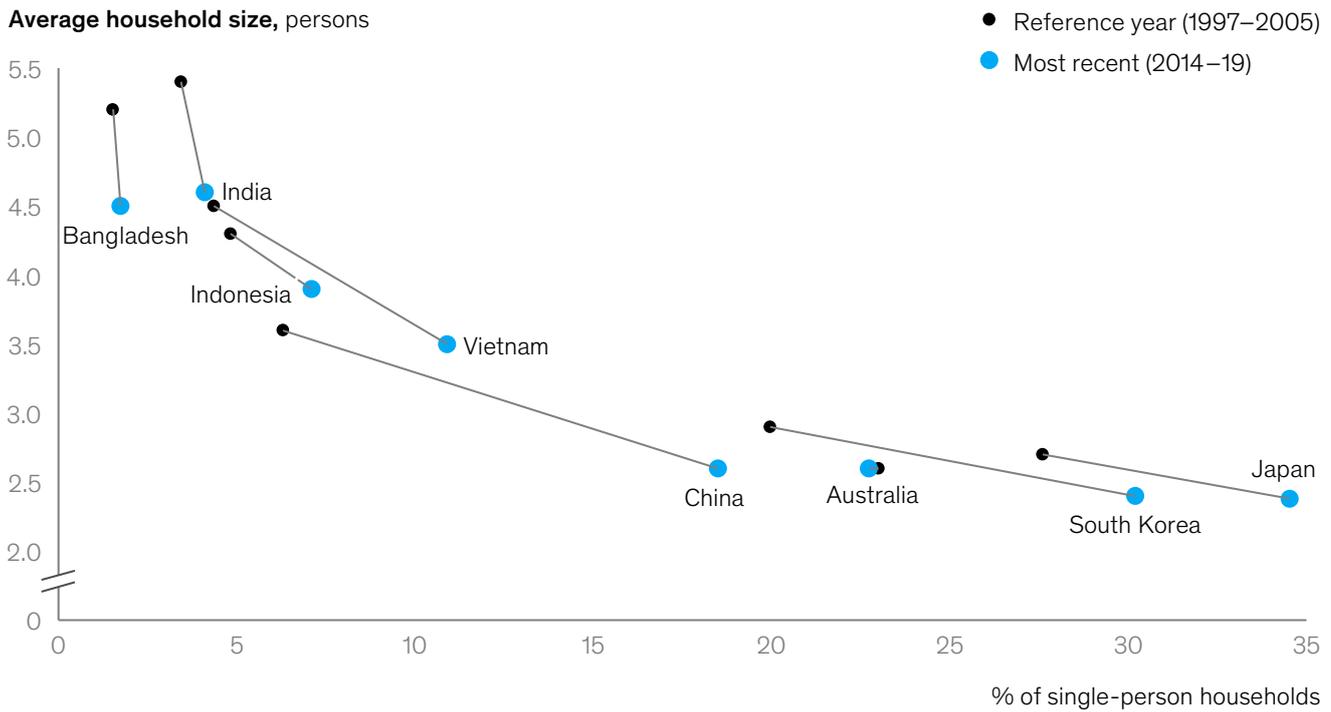


#### Eco-responsibility

>50% of surveyed consumers in Asia changed products or services they buy out of concern about climate change

Source: McKinsey Global Institute analysis

**Across Asia, households are getting smaller, and single-person households are becoming more common.**



Note: Reference years vary by country: Australia, 2001 and 2016; Bangladesh, 2000 and 2014; China, 1999 and 2019; India, 1999 and 2015; Indonesia, 1997 and 2017; Japan, 2000 and 2015; South Korea, 2005 and 2019; and Vietnam, 1999 and 2019. For Japan, 2020 preliminary census figures show a similar average household size (2.3).

Source: National statistical offices; United Nations; McKinsey Global Institute analysis

Demographic changes are influencing these trends, with differing intensities depending on the country. First, fertility rates are declining, for instance from 2.8 to 2.2 on average in Emerging Asia from 2000 to 2020.<sup>16</sup> China's total fertility rate dropped to 1.3 in 2020, with the number of births decreasing 18 percent in a single year, to reach the lowest level in almost 60 years (see Box 3, "Population pyramids are changing as fertility rates decline").<sup>17</sup> Second, significant life events are being delayed. For example, in the past 20 years, the point at which people marry has moved out three years in China and Japan, and the age of having children is similarly delayed.<sup>18</sup> Third, in some countries, such as India, the number of extended-family households has declined, though the trend is not the same across all countries.<sup>19</sup> Finally, as societies age, more widows and widowers are living alone.<sup>20</sup>

<sup>16</sup> *World population prospects 2019*, Population Division, Department of Economic and Social Affairs, United Nations, 2019. The United Nations uses total fertility rate as an indicator. The rate is defined as the average number of live births a woman would have by age 50 according to the age-specific fertility rates observed in a given year throughout her life. The calculation assumes no mortality.

<sup>17</sup> The total fertility rate is the average number of live births a woman would have by age 50 according to the age-specific fertility rates observed in a given year throughout her life. See "China's 2020 fertility rate was 1.3, with 12 mln births," Reuters, May 11, 2021.

<sup>18</sup> Our World In Data.

<sup>19</sup> United Nations, *Patterns and trends of household size and composition: Evidence from a United Nations dataset*, Department of Economic and Social Affairs Population Division, 2019.

<sup>20</sup> *2017 white paper on aging society*, Cabinet Office, Japan, 2017, [cao.go.jp](http://cao.go.jp).

### Population pyramids are changing as fertility rates decline

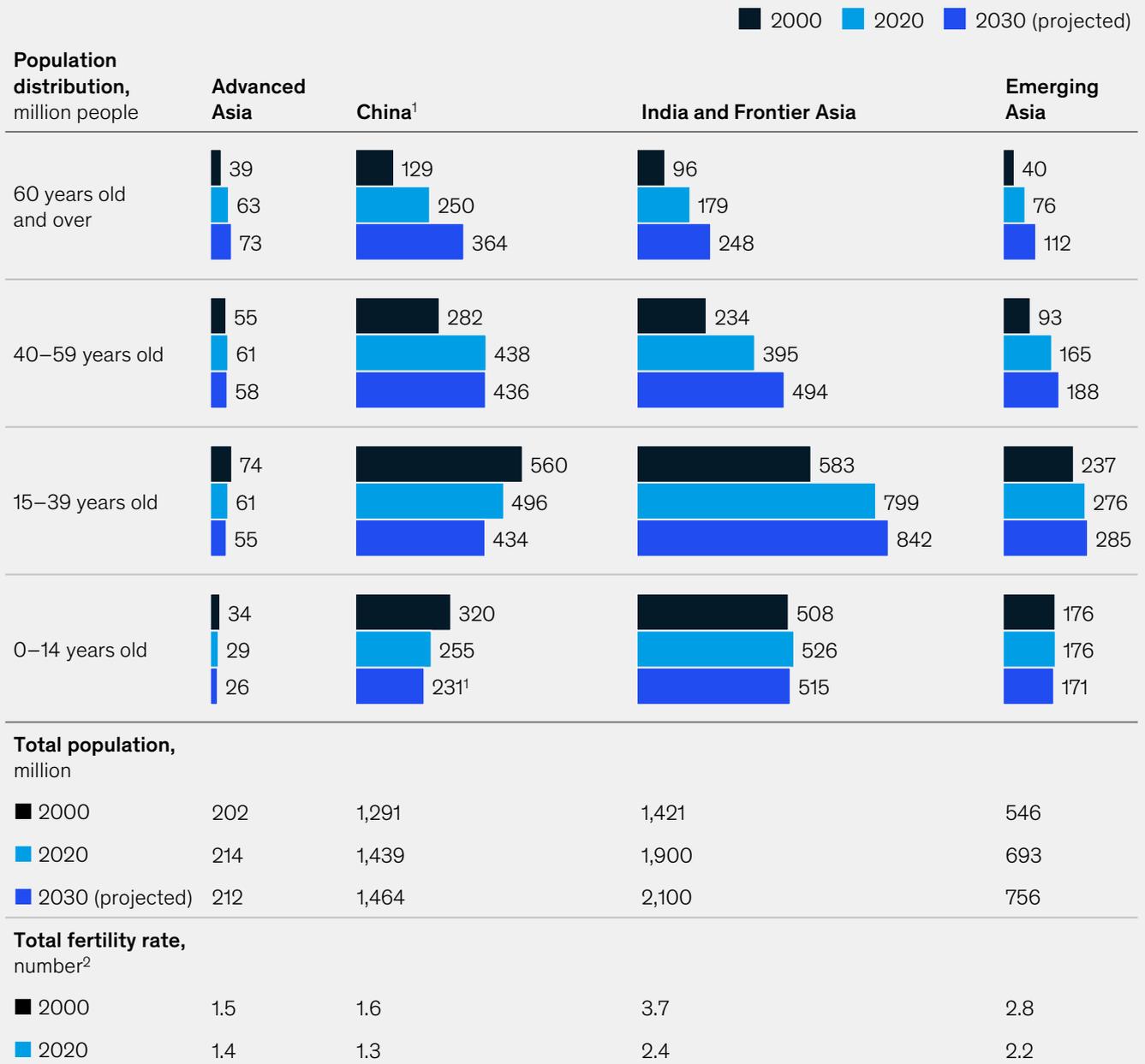
While some countries in Frontier Asia and Emerging Asia, such as Pakistan and the Philippines, still have fertility rates of over 2.5, most countries in the region have been experiencing falling fertility rates. Countries such as China,

Japan, and South Korea have some of the lowest fertility rates in the world. In combination with longer life spans, the population pyramid is therefore skewing upward (Exhibit 10). In China, the number of individuals aged under 15

dropped by almost 70 million between 2000 and 2020. By 2030, there could be 90 million to 115 million fewer individuals aged below 15 than in 2000.

Exhibit 10

### Age pyramids are shifting; the number of people aged under 15 has declined sharply in China and Advanced Asia.



1. China population estimates do not yet account for the decline in fertility rate observed in 2020. For reference, under UN's "low fertility" scenario estimates, the number of people 15 and under in China would be 206 million, compared with 231 million in the "medium fertility" scenario. The "low fertility" population scenario assumes China's total fertility rate is 1.45 until 2025, and 1.32 from 2025 to 2030; compared with an observed total fertility rate of 1.3 in 2020 per last China census.

2. The total fertility rate is the average number of live births a woman would have by age 50 according to the age-specific fertility rates observed in a given year throughout her life.

Note: *World population prospects 2019*, United Nations, 2019; "medium variant" is used for all 2030 projections and estimated 2020 figures, with the exception of China's 2020 total fertility rate, which is based on the latest 2020 census.

Source: China national statistical bureau; United Nations; McKinsey Global Institute analysis

The decrease in household size, growth in the number of single households, and increasing share of single adults is creating new opportunities for companies serving Asian consumers.

One significant opportunity is serving singletons across Asia who increasingly rely on digital social connections, including social media. New forms of connection could also arise, including “AI companions” such as the one released by Xiaoice, an empathetic chatbot that has 660 million users and 450 million third-party smart devices globally.<sup>21</sup> Another example is the Japanese emotional robotics device LOVOT, which keeps its body temperature at about 37 degrees Celsius and asks for hugs. Demand for LOVOT surged more than 15-fold during the COVID-19 pandemic in 2020.<sup>22</sup> More conventionally, the rise in the number of individuals living alone has led to soaring ownership of pets across Asia. In the past five years, the number of pets in China, Singapore, and Thailand has jumped by 114 percent, 12 percent, and 23 percent, respectively. In South Korea, pet ownership rates have surged by 60 percent in ten years.<sup>23</sup>

Single households also require different products. They are likely to include food delivery at home and smaller portions of packaged food; in Japan between 2012 and 2019, the average net weight of several fast-moving consumer goods decreased—by 8 percent in the case of butter and as much as 25 percent in the case of instant coffee.<sup>24</sup> The rise of the single household may even lead to shifts in urbanization patterns as demand for single-unit housing increases.

Singletons tend to have more time for themselves, leading to greater demand for various forms of leisure. Catering to people exercising and even participating in entertainment on their own, in China there are mini karaoke booths (these first appeared in Japan).<sup>25</sup> In Japan, one company is marketing a solo sauna facility called Tune.<sup>26</sup> In particular, digital entertainment, including gaming, virtual reality, and digital content such as music and video streaming and applications may grow as a result of the increase in single households. In Japan, for example, single households spend between 1.5 times and 3.5 times more on digital content such as video, music, and e-books than households with more than one person.<sup>27</sup>

Other growth markets geared to singletons include solo dining and solo travel. In South Korea, where single households now account for more than 30 percent of all households, solo dining took off some time ago—there is even a word for people eating alone, *hon-bap*—and restaurants and other dining establishments have been at pains to offer tailored options including smaller tables and modified meal combinations that are more cost-effective for the single diner.<sup>28</sup> Asians are ahead of some of their counterparts in other regions in their enthusiasm for solo travel. A YouGov poll of 21,000 respondents in 16 countries found that between 69 and 93 percent of Asian travelers had either traveled solo in the past or say they are open to the idea; this compares with around 60 percent for the United States and United Kingdom.<sup>29</sup>

---

<sup>21</sup> Rita Liao, *Microsoft spins out 5-year-old Chinese chatbot Xiaoice*, TechCrunch, July 13, 2020.

<sup>22</sup> *Comforting robots drew attention during the pandemic*, SankeiBiz, October 13, 2020.

<sup>23</sup> Euromonitor International for China, Singapore, and Thailand; 2019 National Consciousness Survey on Animal Protection, Ministry of Agriculture, Food and Rural, and Korea Agency of Education, Promotion and Information Service in Food, Agriculture, Forestry and Fisheries, November 2019 for South Korea.

<sup>24</sup> Kyo Kitazume, “Portion sizes shrink in aging Japan as ‘real’ food prices rise,” *Nikkei Asia*, November 15, 2020.

<sup>25</sup> Jane Cai, *Solo gyms and karaoke for one: Welcome to the loneliness economy*, Inkstone, April 18, 2018.

<sup>26</sup> Solo Sauna Tune, [solosauna-tune.com](https://solosauna-tune.com).

<sup>27</sup> *Monthly expenditure on goods and services ordered over the internet, 2020*, Statistics Bureau of Japan, 2020.

<sup>28</sup> Stephen Dutton, *South Korea sets the standard for global solo dining trends*, Euromonitor International market research blog, 2016.

<sup>29</sup> Raini Hamdi, *Asian travelers to go slow and solo in 2020, online searches reveal*, Skift, December 11, 2019.

## Seniors are going online, and their consumption may grow twice as fast as consumption by the rest of the population in many Asian countries

Consumption by seniors is a big story in Asia, and getting larger. The population of Asian seniors, defined as individuals aged 60 and over, is expected to grow by around 40 percent between 2020 and 2030, from 575 million to more than 800 million, according to the United Nations. Senior consumption is therefore expected to increase quickly, potentially growing twice as fast as consumption by the rest of the population in most of Asia (Exhibit 11). In Advanced Asia countries, such as Japan and Korea, seniors could account for more than half of growth. In Japan, seniors could contribute to more than 60 percent of overall consumption growth, reflecting the fact that the number of seniors is increasing. Seniors could make up almost 40 percent of the nation's population by 2030.

The aging of Asia is not a new story, and is well known and appreciated by many companies. But the way seniors consume is changing. Most notably, the older generation is increasingly adapting to consuming online, a relatively new phenomenon. By 2030, almost 100 percent of seniors in Australia, Japan, and South Korea are expected to be online, while, by conservative projections, the share in China is expected to exceed two-thirds (Exhibit 12). The pandemic may have accelerated seniors' digital adoption. While isolating at home, they were forced to digitize their lifestyles, spending significantly more time on social media, video platform websites, new apps, and e-commerce sites.<sup>30</sup> During the pandemic in 2020, online adoption by seniors underwent a step change. By the end of 2020, people aged 60 and over in China accounted for 11 percent of the total internet population, a jump from 6 percent in March 2020, according to the China Internet Network Information Centre. Ali Research reported that

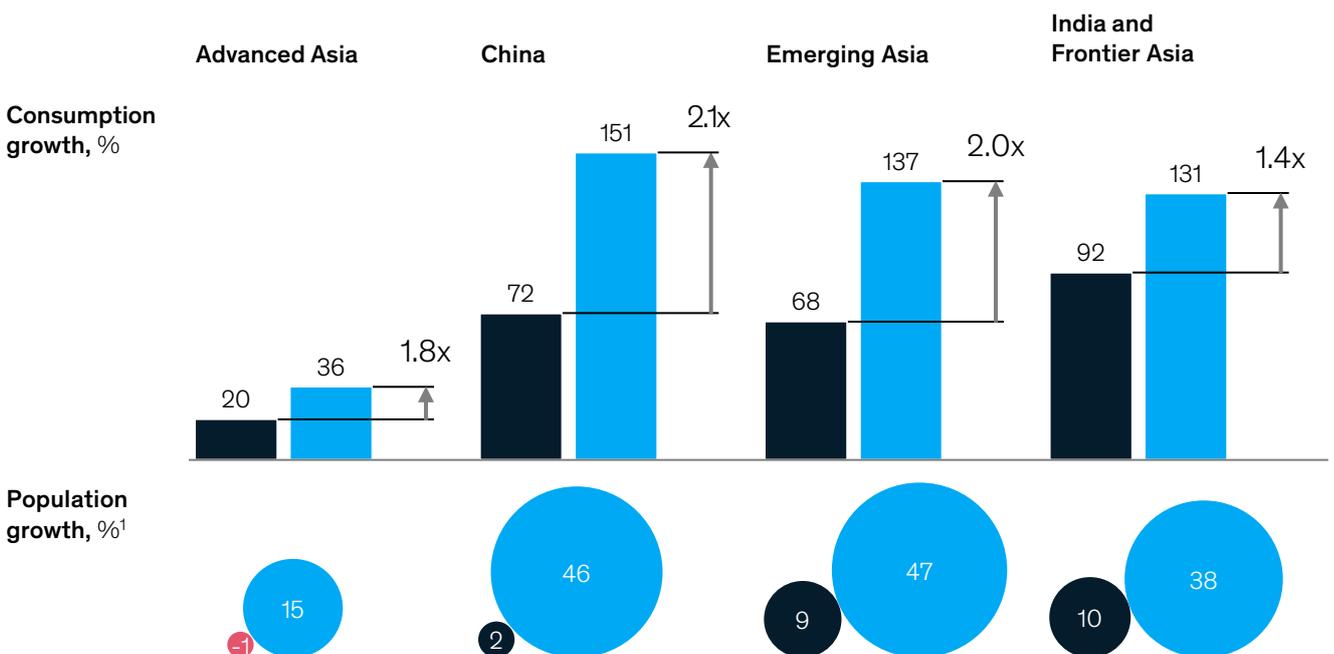
<sup>30</sup> Shen Lu, *China's big tech goes for the big grey*, Protocol, February 21, 2021.

Exhibit 11

### Senior consumption is projected to grow ~1.5–2.0x faster than total consumption over the next ten years.

Total vs age 60 and over growth, 2020–30, %

■ Total ■ 60 and over



1. Medium fertility scenario, *World population prospects 2019*, United Nations, 2019.

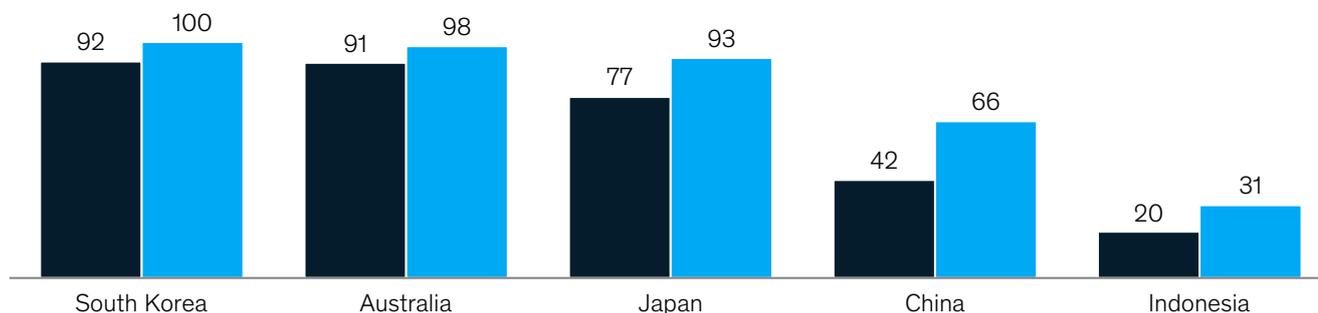
Note: Figures may not sum to 100% because of rounding.

Source: MarketPro by World Data Lab; United Nations; McKinsey Global Institute analysis

## More seniors will go online in the next decade, especially in Advanced Asia and China.

Internet users, share of total senior population, %<sup>1</sup>

■ 60- to 69-year-olds (seniors today) ■ 50- to 59-year-olds (seniors by 2030)



1. Based on latest available data: Australia 2019, China 2019, Indonesia 2020, Japan 2018, and South Korea 2020. Due to different population age breakdown for Australia and Indonesia, the actual 45–54 age group is assumed to be the 50–59 age group on the chart and the actual 55–64 age group is assumed to be the 60–69 age group on the chart.

Source: Australian Bureau of Statistics; CNNIC; Japan Ministry of Internal Affairs and Communication; Statista; McKinsey Global Institute analysis

the year-on-year growth in the number of monthly average users of its mobile service Taobao was about 30 percentage points higher for seniors than for other age groups in 2020.<sup>31</sup>

Many companies are already tailoring their goods and services to seniors, but there is significant scope for more to follow their lead and tap into this growing market. For instance, search engine Baidu provides an app with enlarged text and a streamlined interface for older customers.<sup>32</sup> Ride-hailing giant Didi rolled out Didi Care, which allows older users to order taxis more easily.<sup>33</sup> E-commerce giants Taobao and JD have developed apps and dedicated customer service tailored for their elderly customers.<sup>34</sup> J:COM, Japan's largest cable television operator, launched a telehealth service in July 2021 that enables customers to receive medical treatment at home via their TVs.<sup>35</sup> As seniors increasingly are happy to go online, the size of dedicated offline channels for seniors may need to be rethought, and companies may need to reconsider the balance between online and offline.

The online-offline equation is a major consideration, but not the only one. There are other changing patterns and preferences in the consumption of seniors that companies should consider. Among Asia's seniors, incomes and readiness for retirement vary considerably.<sup>36</sup> Some seniors will attain the higher consuming class and spend over \$70 a day, in purchasing power parity terms, meaning they will be able to afford luxury goods, high-end healthcare services, and specialized assisted living facilities.<sup>37</sup> By 2030, about 5 percent of Asian seniors could fit this description, representing 30 percent of consumption (up from 25 percent today); they are most likely to live in Advanced Asia and in parts of China. On the next two levels of the income pyramid, about 55 percent of seniors in Asia are likely to be part of the entry-level and established consuming class, with daily spending of between \$11 and \$70, accounting for around two-thirds of total senior consumption. China is likely to account for the majority of the seniors in this cohort. Some of the largest categories of spending are expected to be healthcare, caring for grandchildren, and housing, including elderly care. However, there are also many in this age group who do not have sufficient savings to see them through retirement, who are worried about their finances, and who are likely to require government and society's assistance to fulfill their basic needs. More than 300 million seniors, mostly in

<sup>31</sup> *The 47th statistical report on China's internet development*, China Internet Network Information Center, February 2021, [cnnic.com.cn](http://cnnic.com.cn); and *The elderly's digital life in post-pandemic era*, AliResearch, February 2, 2021.

<sup>32</sup> "Baidu launches the big-character version of the app, not only the font size has increased, but also the square dance video," *DayDayNews*, February 4, 2021.

<sup>33</sup> Didi Care Edition, [dd008.com](http://dd008.com).

<sup>34</sup> "China's elderly get special e-commerce app," *Tech Wire Asia*, February 1, 2018.

<sup>35</sup> *J:Com enters online medical care through TV*, *Nikkei Medical*, June 6, 2021, [medical.nikkeibp.co.jp](http://medical.nikkeibp.co.jp).

<sup>36</sup> United Nations; World Data Lab.

<sup>37</sup> See Box 2 in chapter 1 for definitions of the tiers in the consuming class.

Frontier and Emerging Asia and parts of China, may live on less than \$11 a day in purchasing power parity terms by 2030, and therefore are not part of the consuming class. They are expected to account for less than 10 percent of total consumption by seniors by 2030.

Notwithstanding these large income differences, the consumption of seniors represents a strong overall opportunity. In categories such as housing, healthcare, household goods, and leisure and entertainment, seniors are seen as the source of at least 15 to 20 percent of consumption growth.

The housing opportunity is estimated at \$700 billion to \$800 billion per year, predominantly from assisted living, high-end specialized housing, and home refurbishments. Asian baby boomers are increasingly open to luxury retirement villages (already common in Australia and New Zealand), a departure from the traditional preference and practice of remaining at home with family members.<sup>38</sup>

In healthcare, the senior opportunity is about \$200 billion to \$250 billion, even considering only out-of-pocket spending. Many companies have already been innovating in areas such as anti-aging treatments, therapy equipment, monitoring sensors, low-cost pharmaceuticals, and personal care. Japan leads in this area, with beauty and cosmetics companies such as Pola Orbis and Kosé targeting the senior segment with anti-aging products. Companies are also increasingly innovating their offerings. For instance, HiNounou offers an AI-blockchain-driven preventive digital healthcare platform for seniors that continuously monitors the data of individual customers and alerts caregivers when help is needed.<sup>39</sup> Robot companions such as Pepper and Paro have also emerged to support seniors in therapy and exercise.<sup>40</sup>

The Asian fashion industry is increasingly catering to an older demographic. Some of the most viewed social media key opinion leaders on Douyin, China's version of TikTok and the country's fastest-growing social media site, are women in their 60s and 70s modeling fashion.<sup>41</sup> Leisure and entertainment is an opportunity of between \$125 billion and \$175 billion; this total includes senior-oriented tourism packages.<sup>42</sup> Finally, the opportunity in other (tertiary) goods and services, which might include self-driving cars or specialized e-commerce solutions, is estimated at \$250 billion to \$350 billion.

## **A new generation of “digital natives” is expected to drive Asia’s consumption**

Digital natives are expected to drive Asia's consumption over the coming decade, accounting for about 40 to 50 percent of the region's population and consumption by 2030.<sup>43</sup> This generation includes people born between 1980 and 2012, including members of Generation Z (Gen Z) and millennials, and is characterized by deep engagement with technology, in particular mobile.<sup>44</sup>

McKinsey research on Gen Z and millennials in Asia found that they differ from country to country and in comparison with other generations. Nevertheless, these cohorts share some common attitudes toward brand preference and discovery.<sup>45</sup> First, they are demanding—they want it all and are used to getting it. About 60 percent of both of these groups craves high-quality products while at the same time actively seeking bargains. Half of each group says they always look for discounts before buying, compared with 40 percent of members of Generation X (Gen X). Second, they are voracious online content consumers, in particular

---

<sup>38</sup> *Bringing luxury to senior living in Asia*, JLL, April 2017.

<sup>39</sup> HiNounou, [hinounou.com](http://hinounou.com).

<sup>40</sup> Malcolm Foster, "Aging Japan: Robots may have role in future of elder care," Reuters, March 28, 2018.

<sup>41</sup> Melissa Twig, "China's ageing population is an untapped resource for brands, and AI advertising could help attract a growing group of silver-haired customers," *South China Morning Post*, July 5, 2021.

<sup>42</sup> Pepper, Softbank Robotics, [softbankrobotics.com](http://softbankrobotics.com); Paro Therapeutic Robot, Paro, [parorobots.com](http://parorobots.com).

<sup>43</sup> United Nations; World Data Lab. Estimates are based on share of population and consumption at 2011 purchasing power parity of individuals aged 18 to 50 in 2030 as a proportion of the total.

<sup>44</sup> Digital natives are defined as individuals born between 1980 and 2012. By 2030, they will be aged between 18 and 50. They include millennials (born between 1980 and 1995) and Gen Z (born between 1996 and 2012). We define members of Generation X as being born between 1965 and 1979.

<sup>45</sup> Aimee Kim, Paul McInerney, Thomas Rüdiger Smith, and Naomi Yamakawa, "What makes Asia-Pacific's Generation Z different?," June 2020, McKinsey.com.

video. As much as 30 percent say they spend more than six hours a day on their mobile phones. Video content has a significant influence on their brand choices: 70 percent of Gen Z and 60 percent of millennials say they learn about new brands via video-based social media at least once a month. Finally, these cohorts are eager for new experiences and twice as likely as Gen X to buy new brands. They prefer brands that show their personality and uniqueness but that are also well-known enough to be recognized.

Digital natives spend much of their lives online, but their online footprint varies by region, and companies intending to reach them would do well to consider adjusting their approach to local markets. Asia's digital generation tends to mostly use non-Asian social media platforms but largely follows local social media influencers, increasingly uses local messaging apps, and uses Asian e-commerce platforms and local digital payments providers. Within this broad picture, however, there are significant variations. Chinese consumers largely adopt local platforms, while Australian consumers tend to use non-Asian ones (Exhibit 13).

Digital natives are very optimistic about their future; in 2019, more than 70 percent of digital natives said that they were very confident of meeting their financial goals. The only country in which this generation is distinctly less optimistic (as measured before the pandemic) is Japan. Alongside this optimism is digital natives' strong digital presence, with easy access to digital platforms fueling an expansion in their consumption. But another factor is present—optimism and digital access are encouraging borrowing to finance consumption. In China, consumer surveys indicate that digital natives may already take out more consumer loans than any other generation. The penetration of digital loans, in particular, may be twice as high for digital natives as for other generations. According to the same surveys, one of every two people with consumer loans in China is younger than 30. Fueled by debt, these digital natives may be able to outspend other generations in many categories (Exhibit 14). Categories such as apparel and durable goods have been particularly boosted by online debt.<sup>46</sup>

Some signs of financial stress are emerging. In China, as much as 30 percent of new consumer debt may be used to “recycle” previous debt, according to a 2019 survey.<sup>47</sup> In other countries, a similar trend appeared to be developing before the pandemic. In 2019 in Thailand, roughly half of millennials were indebted, and one of every five of those who were indebted had defaulted.<sup>48</sup> In the same year in Australia, consumers under the age of 30 accounted for 9 percent of credit card customers but 20 percent of arrears, and they were increasingly using buy-now-pay-later options more than other generations.<sup>49</sup> Although digital natives are expected to drive consumption in Asia, a continuation of increased spending by digital natives depends on whether they can pay for debt with rising incomes and on whether credit remains available.

---

<sup>46</sup> Survey-based data. See *China's youth debt report*, Nielsen, 2019, [dx2025.com](#); *Research report on Chinese residents' leverage ratio and household consumer credit issues*, Southwestern University of Finance and Economics and Ant Financial, March 2020; and *Credit consumption survey: Half of the post-90s generation, nearly 30 percent of the population uses loans to support loans*, Rong360, August 2018, [rong360.com](#).

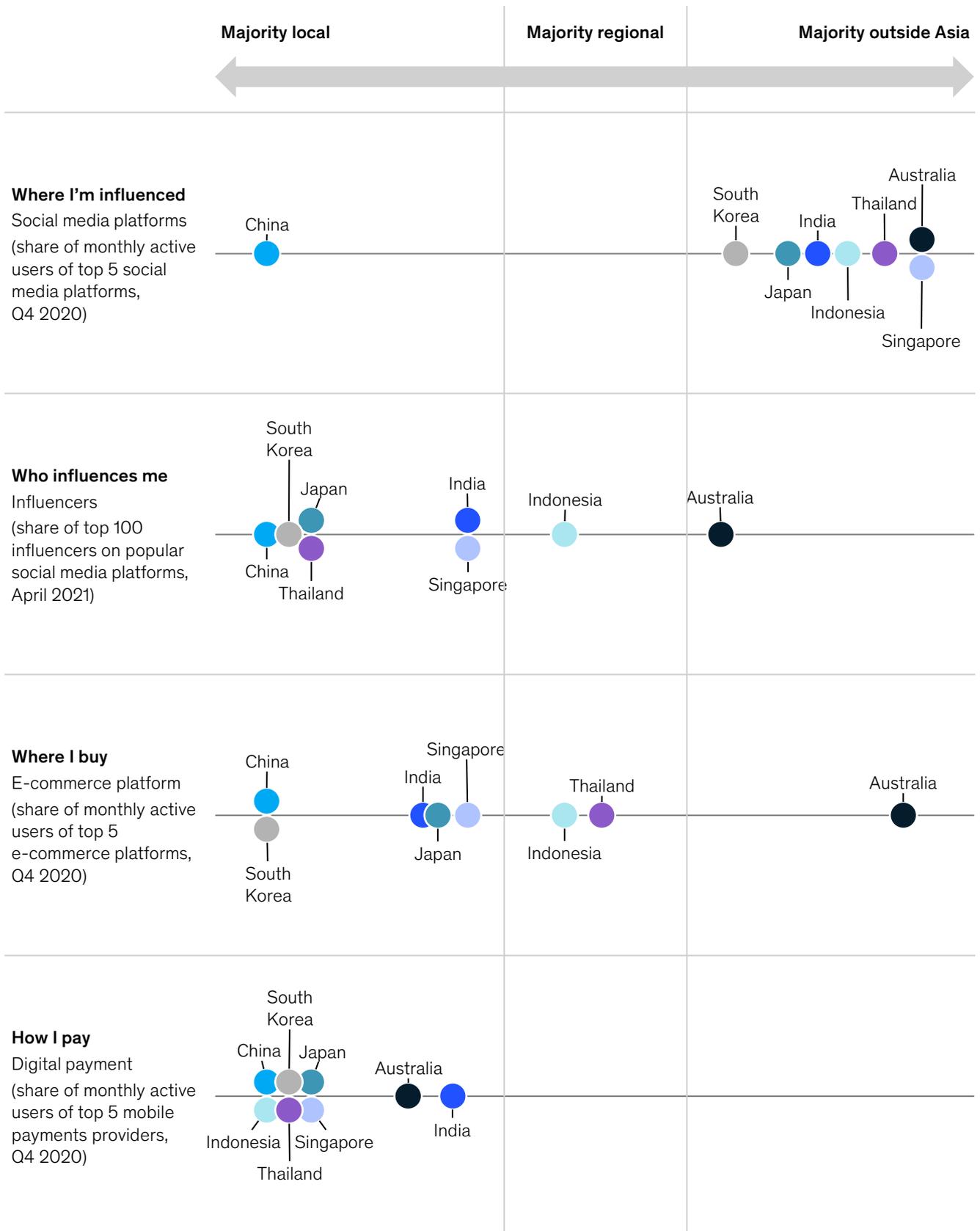
<sup>47</sup> *Credit consumption survey: Half of the post-90s generation, nearly 30 percent of the population uses loans to support loans*, Rong360, August 2018, [rong360.com](#).

<sup>48</sup> “Millennials mired in shopping debts,” *Bangkok Post*, November 25, 2019.

<sup>49</sup> *Credit card nation: But are we losing interest?*, Illion, March 2019; S&P Global.

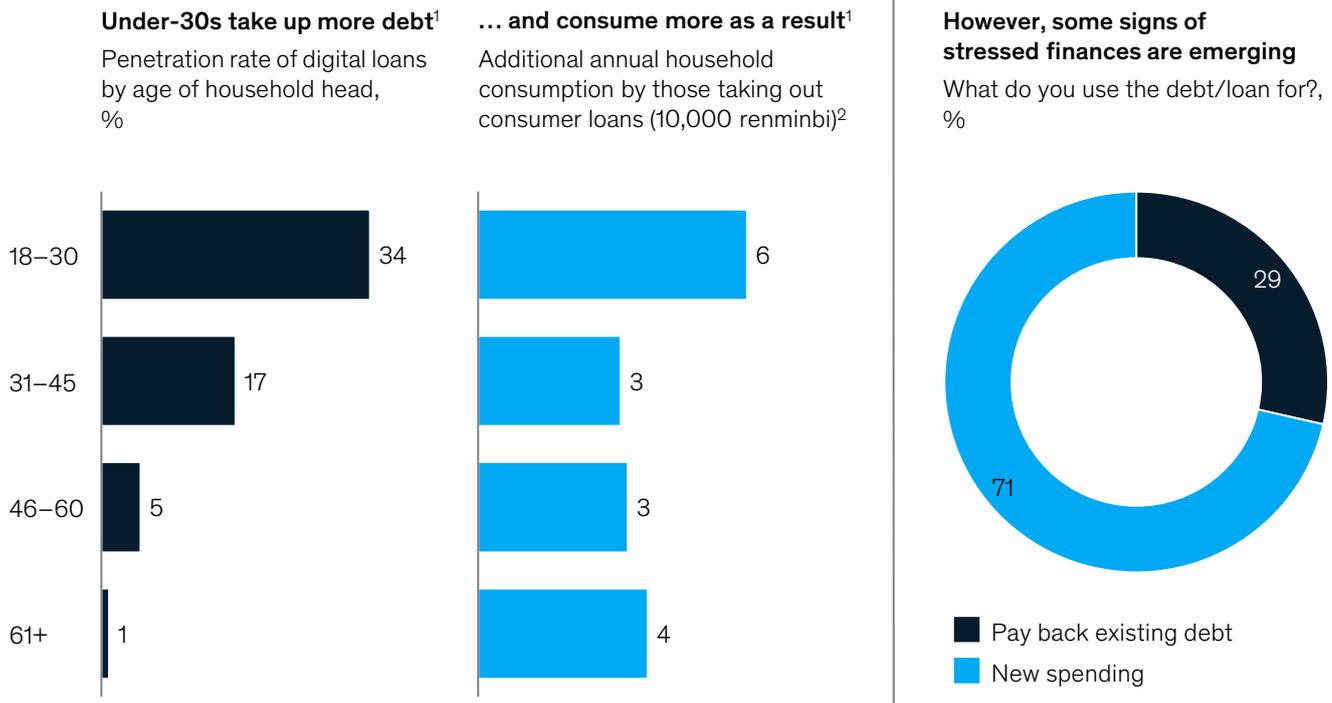
## Asian consumers tend to adopt and engage with local and regional digital platforms and influencers.

Asian consumers' digital journey<sup>1</sup>



1. Definitions based on location of headquarters of platform and nationality of influencer. Local = same country; regional = Asia, not the same country. Source: HypeAuditor; Sensor Tower; local social media platforms reports; McKinsey Global Institute analysis

## Chinese digital natives borrow more and outspend other generations.



1. Age brackets between bar charts vary slightly (± 3 years).  
 2. Difference between annual consumption of households that take out consumer loans vs households that don't. Consumption includes food, apparel, home appliances and maintenance, healthcare, transportation and communication, entertainment and education, and other services; housing excluded.  
 Note: Figures may not sum to 100% because of rounding.  
 Source: Ant Finance Research Institute; Rong360; Southwestern University of Finance and Economics; McKinsey Global Institute analysis

## Women's economic empowerment could shift consumption patterns, adding an additional 30 percent to Asia's consumption growth

Another significant factor that could change Asia's consumption is the role of women. Despite some progress, large gender gaps remain in many parts of the region, and the COVID-19 pandemic proved to be regressive, hitting women (and those with low incomes, often one and the same) particularly hard in many countries.<sup>50</sup> However, as MGI's research on the power of parity has argued since 2015, the economic empowerment of women has the potential to add significantly to economic growth.<sup>51</sup>

In 2020, MGI research found that advancing women's equality in Asia–Pacific could add \$4.6 trillion a year to collective GDP by 2030, if women's economic empowerment were to play out to its full potential.<sup>52</sup> Extrapolating that potential GDP boost to prospects for consumption, women's empowerment in the region could boost consumption by as much as \$3 trillion over the next decade.<sup>53</sup>

This potential relies on the following five forces of women's economic empowerment: increased women's labor participation, rising income opportunities, increased financial and digital inclusion, changing family structure, and a larger role in purchasing decisions (Exhibit 15).

<sup>50</sup> Anu Madgavkar, *The impact of COVID-19 on women in the workplace in Asia*, July 2020, McKinsey.com.

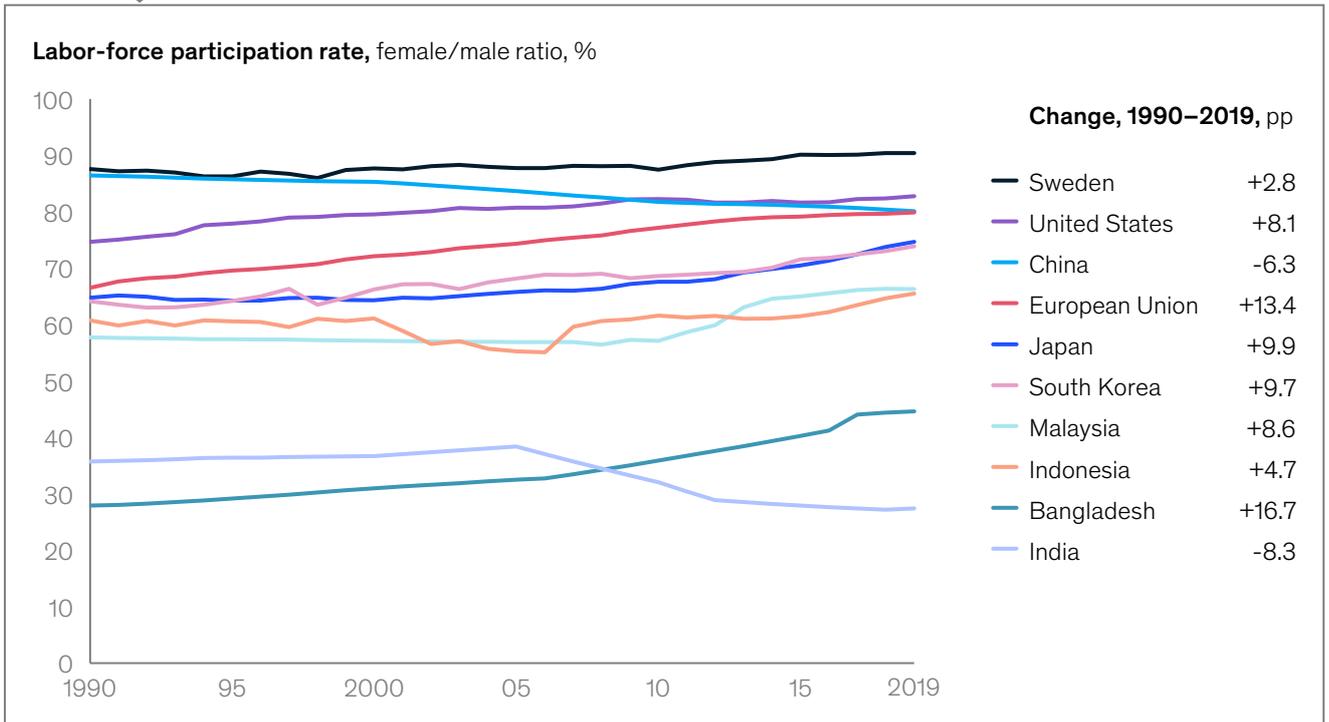
<sup>51</sup> *The power of parity: How advancing women's equality can add \$12 trillion to global growth*, McKinsey Global Institute, September 2015.

<sup>52</sup> In 2015 fixed prices. See Anu Madgavkar, Olivia White, Mekala Krishnan, Deepa Mahajan, and Xavier Azcue, "COVID-19 and gender equality: Countering the regressive effects," July 15, 2020, McKinsey.com; and *The power of parity: Advancing women's equality in Asia Pacific*, McKinsey Global Institute, April 2018.

<sup>53</sup> Around \$2.2 trillion in 2015 fixed prices, which is roughly equivalent to \$3 trillion in current prices in 2030; see the technical appendix for details of how the calculation was made.

## Women’s economic empowerment could drive a \$3 trillion consumption opportunity.

### Five economic forces to empower women



Source: ILOSTAT; World Bank; McKinsey Global Institute analysis

— **Labor participation.** Asia has made progress in women’s participation in the labor force, but it has been modest and not uniform among countries. The female-to-male labor-force participation ratio rose from 1990 to 2019 in countries in Advanced Asia and Emerging Asia (for instance, ten percentage points in Japan and South Korea, nine percentage points in Malaysia, and five percentage points in Indonesia).<sup>54</sup> However, in Asia’s two most populous countries, women’s participation in the labor force has been trending down for some decades. From 1990 to 2019, participation declined by six percentage points in China and by eight percentage points in India, according to International Labour Organization statistics. For both China and India, the decline reflects a complex web of related factors, including but not limited to increasing female education rates, challenges in accessing childcare, inequity in labor market conditions for men and women, and rising

<sup>54</sup> Measured as the female-to-male labor-force participation rate; based on International Labour Organization data.

incomes.<sup>55</sup> In the case of China, it is notable that despite the decline in women's labor-force participation, they still contribute 41 percent to GDP, the highest share in the Asia–Pacific region.<sup>56</sup>

- **Rising income opportunities.** Gender pay gaps exist across Asia, although the size of those gaps varies significantly.<sup>57</sup> They have been increasing in China and India, but narrowing in most countries in Advanced and Emerging Asia. For instance, the gaps in Thailand and Singapore moved from 6 and 36 percent, respectively, in 2011 to minus 2 and 11 percent in 2019. Three potential shifts may lead to reduced gender pay gaps and higher incomes for women: (1) increased women's employment in higher-productivity sectors such as industry and services; (2) a shift from unpaid to paid work; and (3) an increase in women's remuneration for the same work.
- **Increased financial and digital inclusion.** The gender gap on digital and financial inclusion has narrowed somewhat in Asia, but large disparities remain. In India and Frontier Asia, for instance, the gender gap in access to the mobile internet has narrowed by 16 percentage points since 2017 as 78 million more women have come online.<sup>58</sup> If and when more women become connected, they are likely to have new opportunities for consumption to improve their lives.
- **Changing family structure.** Family structures have changed significantly in Emerging and Frontier Asia, likely leading to different patterns of consumption. In India, for instance, young women married about 3.5 years later in 2018 than in 1981, and they have fewer children (total fertility rate declined to 2.2 in 2020 from more than 5.0 in 1980).<sup>59</sup>
- **A larger role in purchasing decisions.** Finally, gender roles in purchasing decisions may be balancing out, and women may have more of a say in household decisions. According to the World Bank, the share of women participating in making major household purchase decisions has increased over the past decade in multiple countries. In Bangladesh, that share rose from just below 50 percent to just above 70 percent between 2004 and 2018. In India, the share rose from about 53 percent in 2006 to more than 73 percent in 2016.<sup>60</sup> As with many indicators of women's economic empowerment, this picture of progress is not homogeneous. In countries including Nepal and Pakistan, the figure is below 55 percent according to the latest available data, compared with about 90 percent in Cambodia and the Philippines. On the other side of the equation, as the number of dual-income households rises, men may participate more in decisions that women tended to make, such as purchases of food and drink for the family.

If progress continues to be made in these key areas of economic empowerment, women's consumption is likely not only to rise but to be shaped by new needs and preferences.

First, new needs may emerge as women join the workforce, including new technology to facilitate working from home, professional apparel, new financial solutions to manage their new income, and solutions to save time in household management. In the apparel domain,

---

<sup>55</sup> For more on China, see, for instance, Eva (Yiwen) Zhang and Tianlei Huang, *The gender gap in labor force participation is widening in China while narrowing in other parts of the world*, Peterson Institute for International Economics, June 2020; Eva (Yiwen) Zhang and Tianlei Huang, *Gender discrimination at work is dragging China's growth*, Peterson Institute for International Economics, June 2020; and Limin Wang and Jeni Klugman, "How women have fared in the labour market with China's rise as a global power," *Asia & the Pacific Policy Studies*, January 2020, Volume 7, Issue 1. For more on India, see, for instance, Sonalde Desai and Omkar Joshi, "The paradox of declining female work participation in an era of economic growth," *The Indian Journal of Labour Economics*, 2019, Volume 62; Ellina Samantroy, "Women's participation in domestic duties and paid employment in India: The missing links," *The Indian Journal of Labour Economics*, June 2020, Volume 63, Number 2; and *The power of parity: Advancing women's equality in India*, McKinsey Global Institute, November 2015.

<sup>56</sup> Detailed discussion of trends in women's labor participation, what drives these trends, and the barriers to women working can be found in *The power of parity: Advancing women's equality in Asia Pacific*, McKinsey Global Institute, April 2018; and Sukti Dasgupta, Makiko Matsumoto, and Cuntao Xia, *Women in the labour market in China*, ILO Asia–Pacific Working Paper Series, International Labour Organization, May 2015.

<sup>57</sup> Figures refer to unadjusted pay gaps and do not reflect different occupational mixes. See *Global wage report 2018/19: What lies behind gender wage gaps*, International Labour Organization, 2018.

<sup>58</sup> *The mobile gender gap report 2020*, GSM Association, 2020.

<sup>59</sup> *World population prospects 2019*, United Nations, June 2019; and SRS statistical report 2018, Office of the Registrar General & Census Commissioner, India, [censusindia.gov.in](https://censusindia.gov.in).

<sup>60</sup> World Bank Group Gender Statistics, Women participating in making major household purchase decisions (% of women age 15–49), [tdata360.worldbank.org](https://tdata360.worldbank.org).

women may need to invest in professional clothes to wear to the office, and, as explored later in this chapter, renting clothes is a cost-effective way to do this. In South Korea, apparel subscription services are becoming more popular, enabling women to access designer clothes at an affordable price.<sup>61</sup> It is notable that specialized clothing care appliances have become particularly popular in households where both men and women work. In South Korea, examples include Samsung and LG wardrobes that also function as clothes cleaning kits for busy professionals.<sup>62</sup> In the financial services domain, players are responding to the potential of the female customer base. In Mongolia, fintech provider LendMN, which lends largely to women, has developed a mobile app powered by AI that offers loans without collateral. In Cambodia, MFI Amret has developed a no-cost remittance service, Family+, that is particularly attractive to women who have irregular cash flow and limited mobility.<sup>63</sup> Educational services is another potential growth area. In Japan, members of dual-income households who earn a higher combined income but have less time are increasingly hiring tutors and consultants to support children facing exams and even to attend school events held during business hours.<sup>64</sup> Another example of paying for a service that saves time as more women work outside the home is the rise of food and grocery delivery services. In Japan, Oisix, which offers a meal kit for preparing dinner rapidly, has experienced robust year-on-year growth since 2018; that growth accelerated during the pandemic when families were forced to stay at home.<sup>65</sup>

Second, if more women were enabled to work outside the home and in higher-productivity jobs for higher wages, this would unleash more spending power. A number of categories could benefit from incremental spending power. Increased entertainment and restaurant spend is expected, for example, especially in higher-income countries. In total, we estimate that increased incomes could unleash as much as \$200 billion in combined spending in these categories. Some expenditure could be directed at underlying health needs that may have been neglected. The “femtech” market, defined as products, software, and services that use technology to focus on women’s health, globally exceeded \$16.5 billion in 2018 and could grow at a compound annual rate of more than 17 percent in Asia–Pacific between 2019 and 2025, according to Global Market Insights.

Finally, women may also change the way they shop, using different channels. Working women may put a premium on convenience, boosting their use of online channels, after-hours convenience stores, and bulk buying, especially of nonperishable goods. According to Tmall in China, one of Alibaba’s e-commerce platforms, 80 percent of the top new brands that emerged in 2020 were focused on the needs of women. Female entrepreneurs on the Tmall platform account for 40 percent of the total, compared with less than 10 percent in Fortune Global 500 companies.<sup>66</sup>

Overall, several categories could experience growth of 15 percent or more, including insurance and financial services (\$150 billion to \$200 billion), apparel (\$175 billion to \$225 billion), hotels and restaurants (\$175 billion to \$225 billion), and household goods including furniture and appliances (\$75 billion to \$125 billion), among others. Relative growth in these categories is seen varying by geography. For example, in Advanced Asia, a relatively higher proportion of household spending goes toward entertainment and travel than in Frontier Asia, where a larger share of incremental spending goes to basics such as food and beverages. Furthermore, within Asia, trends in women’s economic empowerment vary. For example, the labor-force participation rate is increasing faster in Emerging Asia and Advanced Asia than in China, leading to different rates of growth in marginal incremental spending in the workplace on technology and some types of business apparel.

---

<sup>61</sup> Catherine Chung, “From Chanel to Gucci: Korean women turn into designer rent-a-holics,” *Korea Herald*, November 15, 2018.

<sup>62</sup> Kenichi Yamada, “Samsung and LG wardrobes double as cleaners for busy suit wearers,” *Nikkei Asia*, September 4, 2018.

<sup>63</sup> Arisha Salman and Keiko Nowacka, *Innovative financial products and services for women in Asia and the Pacific*, ADB Sustainable Development Working Paper Series number 67, Asian Development Bank, April 2020.

<sup>64</sup> Wataru Suzuki, “Private schooling booms in Japan and South Korea fuel inequality,” *Nikkei Asia*, April 16, 2019.

<sup>65</sup> Oisix ra daichi, *FY2021/3 results explanatory materials*, May 2021, [en.oisixradaichi.co.jp](https://www.oisixradaichi.co.jp).

<sup>66</sup> *How rising feminism in China is shaping brands' marketing strategy*, Adsmurai, [adsmurai.com](https://adsmurai.com).

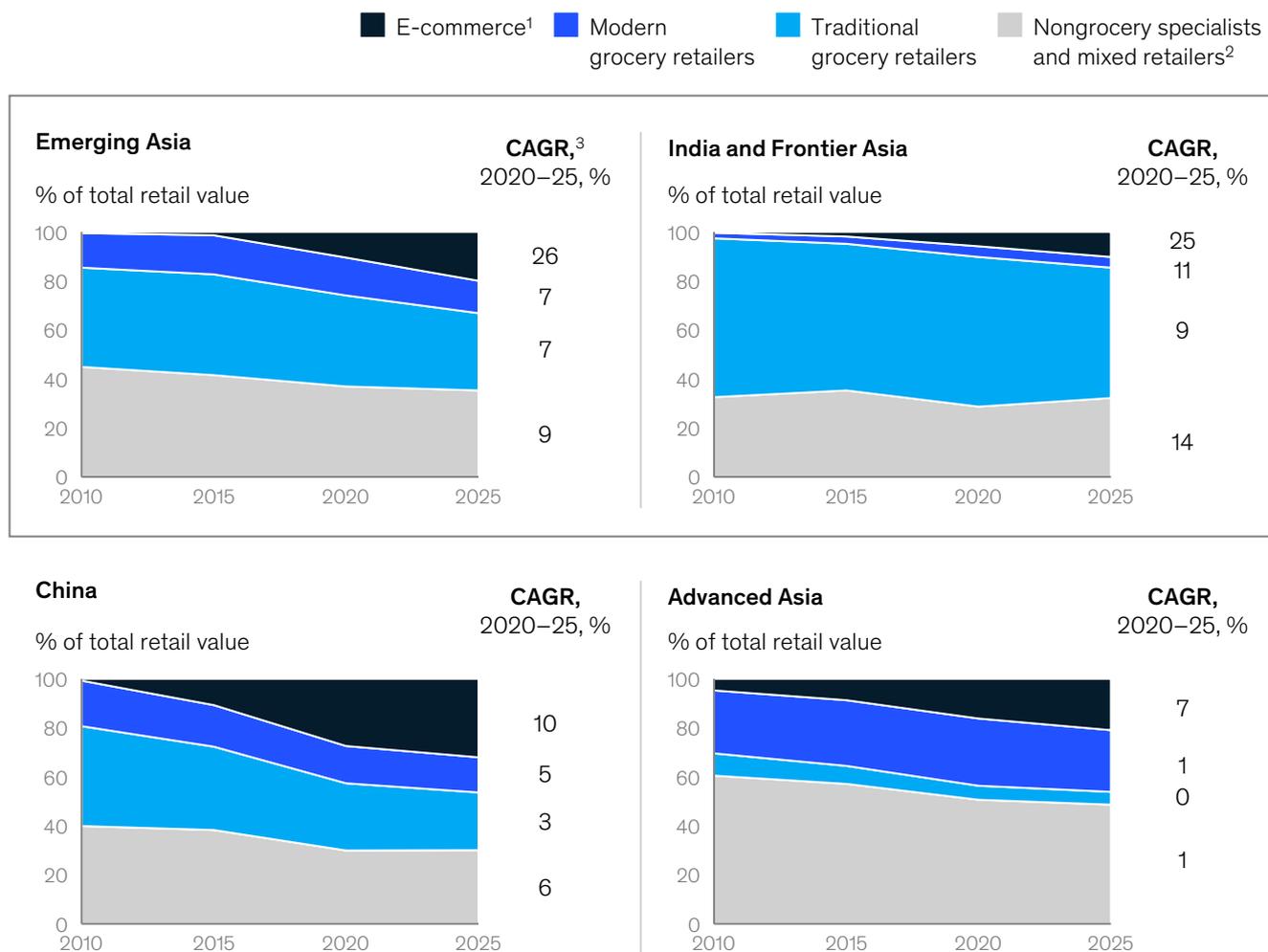
## Digital leapfrogging is creating a new Asian channel mix that is an increasingly prominent feature of the region's consumer landscape

Asia has historically had an idiosyncratic channel mix, with traditional trade prominent alongside a plethora of convenience formats. Today, these account for 20 percent of modern trade sales in Asia and more than half of modern trade sales in Emerging Asia, according to Euromonitor. Most stories about the evolution of the channel mix in Asia have centered on fragmented traditional trade being replaced by modern store-based trade. However, two digitization forces are reshaping this story.

First, e-commerce is increasingly replacing or complementing store-based trade. In China, Emerging Asia, and India and Frontier Asia, retail markets are leapfrogging straight from traditional formats to e-commerce, which is expected to reach 30 percent of retail sales in China and 20 percent in Emerging Asia by 2025, according to Euromonitor estimates (Exhibit 16). E-commerce platforms are connecting younger and peri-urban consumers with international brands. Tmall, for example, is enabling new companies to enter China. In 2020, the platform took on 29,000 brands, 80 percent of which were newcomers to the Chinese

Exhibit 16

### Emerging and Frontier Asia are bypassing the transition from traditional to modern retail and leapfrogging directly to e-commerce.



1. Includes grocery and nongrocery.

2. Specialized retail categories excluding groceries. Includes electronics, beauty, home supplies, other.

3. Compound annual growth rate.

Note: Total retailing market includes store-based retailing (grocery, nongrocery specialists, and mixed retailers) and e-commerce, in fixed 2020 exchange rates and market prices. Excludes vending machines, mail order catalogs, direct mail, and TV shopping. Figures may not sum to 100% because of rounding.

Source: Euromonitor International Retailing, 2021 edition; McKinsey Global Institute analysis

market.<sup>67</sup> Of Tmall users, 45 percent are from lower-tier Chinese cities. These platforms are connecting consumers outside major metropolitan areas with the rest of the region and offering younger consumers, whose preferences will dominate for years to come, choices from throughout the region.<sup>68</sup>

The second force as the result of digitization is that new routes to market are emerging. Today, fragmented traditional trade is highly prevalent in Asia and provides a livelihood for many people. There are more than 12.6 million traditional stores in India and 4.4 million in Indonesia, for instance, according to Euromonitor. However, traditional trade may create inefficiencies for participants along value chains, including a high cost-to-serve measurement, lack of control over pricing for consumer packaged goods players and manufacturers, low margins for local producers because of the presence of multiple intermediaries, and difficulties faced by consumers in obtaining the best of both worlds, namely the convenience of traditional trade and the choice and promotions offered by modern trade.

Now, however, technology is disrupting traditional route-to-market approaches and addressing some of the key inefficiencies of traditional trade. For instance, eB2B platforms have changed markets by connecting traditional trade and disintermediating traditional distributors and wholesalers.<sup>69</sup> In China, technology companies such as Alibaba LST and Meicai are leading the way on connecting small businesses and providing eB2B services. In other parts of Asia, retailers such as Reliance and consumer packaged goods (CPG) companies, like Hindustan Unilever Limited in India, lead in the adoption of eB2B efforts. This disruption has the potential to enable and strengthen a revival of traditional trade. Given the more complex configuration of new routes to market, companies may need to adjust their management approach, leading to potential shifts in value among different players in the value chain (see chapter 3 for further discussion of the CPG sector).

## **Asian brands may capture a larger share of wallet**

Asian brands account for a large share of the region's consumer spending—between 65 and 95 percent of such spending in automotive, electronics, and consumer packaged goods (Exhibit 17). However, the dynamics of local, regional, and non-Asian players may change.<sup>70</sup>

In automotive and consumer electronics, Asian brands have historically crossed borders, creating large regional champions. This dynamic has strengthened over the past five years, with regional players gaining three percentage points of market share in automotive and six percentage points in in-home consumer electronics. In automotive, Japanese and South Korean brands have significant market share across all Asian markets. Japanese brands have the highest market share in Australia, Indonesia, Japan itself, Singapore, and Thailand, while South Korean brands have the largest share in their home market plus Vietnam. Outside Japan and South Korea, local brands generally have a lower market share, with the exception of China, where local players hold more than 30 percent of the market, and Malaysia, where the share is more than 50 percent. The story is similar in in-home consumer electronics, with Chinese and South Korean brands achieving local shares of 60 to 80 percent but also crossing regional borders to Australia, India, Indonesia, and Thailand, where regional players' share is between 80 and 90 percent.

In portable consumer electronics, the patterns are broadly similar to those in in-home electronics, except for the fact that non-Asian players have around 50 percent market share in Australia and Japan, largely because of the presence in these countries of large technology companies from the United States.

---

<sup>67</sup> Homi Kharas and Meagan Dooley, *East Asia leads e-commerce and the digital trade revolution*, East Asia Forum, April 2021.

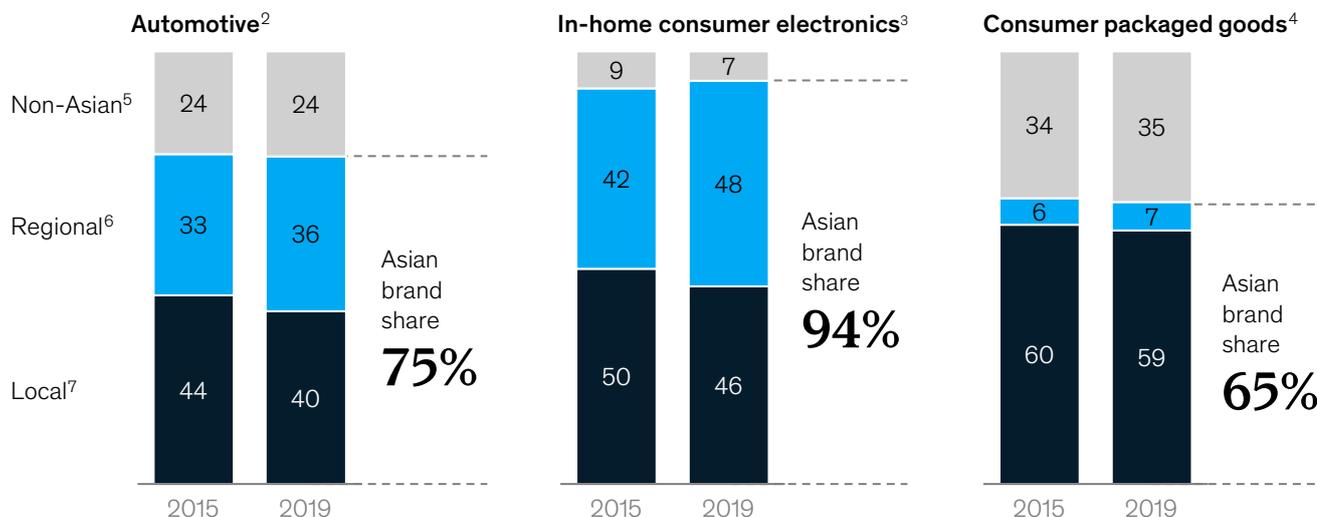
<sup>68</sup> Ibid.

<sup>69</sup> eB2B companies can be thought of as platforms that digitize the purchases of traditional stores, usually buying through a phone application and receiving deliveries to their stores. eB2B has two main business models: in some situations, the application is a pure platform (passing orders from outlets to the brands or their distributors), while in other models, players are "e-wholesalers" that buy the goods from brands and resell them to outlets.

<sup>70</sup> We define a local brand as one with headquarters in a particular country, a regional brand as one with headquarters outside the country but within the Asian region, and a non-Asian brand as one with headquarters outside of Asia.

## Local brands have high market share in Asia in automotive, consumer electronics, and consumer packaged goods; the regional share is rising.

Breakdown of sales or volume from Asia by headquarters country, %<sup>1</sup>



1. In seven Asian economies: Australia, China, India, Indonesia, Japan, South Korea, and Thailand.  
 2. Out of the top 10 automotive brands in each country by volume.  
 3. By volume. Includes televisions, home audio and cinema, video players.  
 4. By sales revenue. Includes alcoholic drinks, beauty and personal care, consumer health, home care, packaged food, and soft drinks (where company market share is available).  
 5. Companies with HQ outside Asia.  
 6. Companies with HQ located outside country but within Asia.  
 7. Companies with HQ in country.  
 Note: Figures may not sum to 100% due to rounding.  
 Source: Euromonitor International; IHS Markit; McKinsey Global Institute analysis

A somewhat different dynamic appears in CPG, where local and non-Asian brands have historically had a high share in most categories, but regional players' share is low. Nevertheless, CPG is a highly fragmented market with nuanced distinctions. In China, Japan, and South Korea, most CPG subcategories are highly localized, with the exceptions of beauty and personal care in China and apparel and footwear in South Korea. However, in Australia, India, Indonesia, and Thailand, non-Asian players have made more headway. Packaged food is the most localized category across markets, with local players taking more than 50 percent market share in all economies analyzed except for Australia. Companies such as Indofood in Indonesia and Amul in India have effectively catered to local tastes, and they controlled the highest market share of their respective markets in 2019.<sup>71</sup>

Asia's integration is increasing. MGI research in 2019 found that 60 percent of goods traded by Asian economies are within the region.<sup>72</sup> In this context, it is notable that regional players represent only 6 percent of the total CPG market today. However, an inflection point may be coming for CPG, following the same trend as automotive and consumer electronics. Over the past five years, regional players grew faster than the overall market in most categories, and as much as twice as fast for categories such as beauty and personal care (Exhibit 18). Beer companies such as ThaiBev of Thailand and San Miguel of the Philippines have crossed borders by exporting their products to Australia, China, and Indonesia, potentially suggesting a path ahead for other regional champions. Beauty players such as Kosé in Japan and Amorepacific from South Korea have done the same. Today, Kosé earns one-third of its revenue outside of Japan, the majority of that in other Asian markets, where sales grew at a rate of 20 percent a year from 2016 to 2020. The company drew up specific strategies for each of its Asian markets. For instance, it entered the Indian market with a range dedicated to

<sup>71</sup> Based on Euromonitor data; market share in retail sale price terms.  
<sup>72</sup> *The future of Asia: Asian flows and networks are defining the next phase of globalization*, McKinsey Global Institute, September 2019.

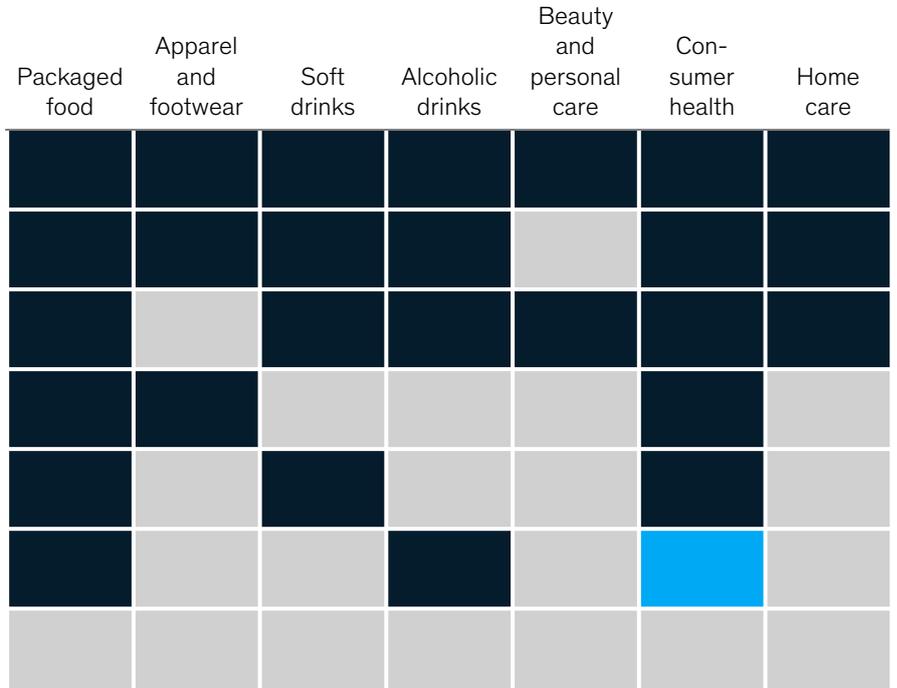
**Regional players start from a low base but have achieved the fastest growth in CPG.**

Highest market share    ■ Local<sup>1</sup>    ■ Regional<sup>2</sup>    ■ Non-Asian<sup>3</sup>

**Consumer packaged goods (CPG) category**

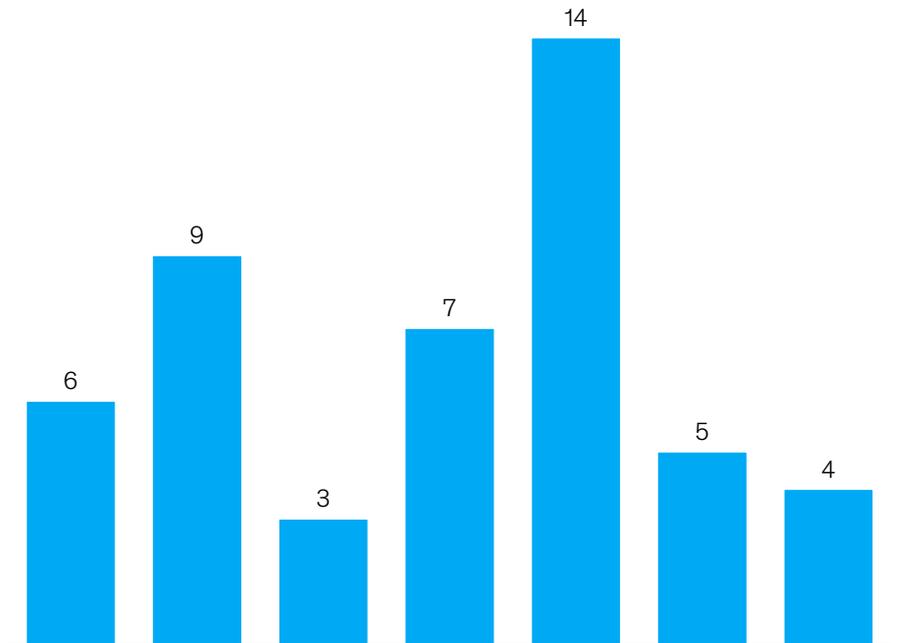
In CPG, local and non-Asian players are leading across subcategories ...

More local  
↑  
↓  
More global



... but regional players are emerging

Growth in revenue of regional players, compound annual growth rate (CAGR), 2015–19, %<sup>2</sup>



Regional growth multiple, regional revenue CAGR over total market CAGR, multiple



1. Companies with HQ in country.  
2. Companies with HQ located outside country but within Asia.  
3. Companies with HQ outside Asia.

Source: Euromonitor Passport database; McKinsey Global Institute analysis

younger working women, partnered with Lazada to expand its reach in Southeast Asia, and partners with Jumei and Tmall in China.<sup>73</sup>

Companies aiming to cross borders need to consider local competitive dynamics. Local players may enjoy some advantages. By not being bound by global processes and constraints, they may be able to adapt to local tastes more quickly and in a more tailored way, and, in some cases, even gain cost advantage. In addition, local players may have a deeper understanding of and connection with the local trade environment and regulatory framework, enabling them to apply distinct route-to-market approaches.

Despite the head start enjoyed by local players, non-Asian multinational corporations and regional champions can find ways to achieve localized innovation and approaches. One way is to ensure that brands are sufficiently localized and products developed to suit local tastes. For instance, FrieslandCampina, a dairy cooperative from the Netherlands, has specific brands for each location: Frisian Flag in Indonesia (known locally as Susu Bendera), Dutch Lady in Malaysia, Foremost in Thailand, and Alaska in the Philippines, all of which are among the top dairy brands in their respective countries.<sup>74</sup> In China, Coca-Cola has experimented by launching a cola with ginger juice intended to be heated before drinking that caters to the preference of Chinese consumers for hot over cold beverages.<sup>75</sup> Another approach is to provide local branches with autonomy and decision-making power. For example, Unilever offers local subsidiaries a large degree of flexibility, with Hindustan Unilever Limited developing a “winning in many Indias” concept characterized by a highly localized and decentralized go-to-market approach. Lastly, eB2B disruption may open up new opportunities for multinational corporations to extend their reach in local markets by addressing inefficiencies in traditional value chains and enabling increased penetration of smaller local markets.

## Notions of ownership are changing

Economic pressures, changing consumer attitudes, and technology have combined to prompt many Asian consumers to consider alternatives to traditional ownership of goods in order to fulfill their needs. Three broad shifts have emerged (Exhibit 19).

---

<sup>73</sup> “Japan’s Kose Corp enters India with skincare brand Spawake,” *Hindu Business Line*, April 10, 2015; *General announcement: Kose partners Lazada and Synagie to expand e-commerce footprint in Southeast Asia*, October 11, 2019, [links.sgx.com](https://www.links.sgx.com); Michelle Yeomans, *Jumei becomes first Chinese e-commerce provider to stock Shiseido and Kose*, *Cosmeticsdesign-Asia.com*, November 25, 2015; and Motokazu Matsui, “Alibaba emerges as the platform of choice for foreign sellers,” *Nikkei Asia*, August 27, 2018.

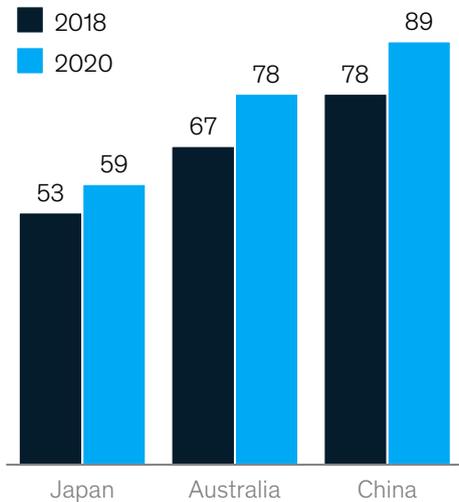
<sup>74</sup> *Our brands*, FrieslandCampina, [frieslandcampina.com](https://www.frieslandcampina.com)

<sup>75</sup> *Coca-Cola China increases the size of the hot beverage market, and “Coca-Cola Ginger+” soda is launched*, Coca-Cola China, July 2021, [coca-cola.com.cn](https://www.coca-cola.com.cn).

## Forms of ownership are changing across Asia.

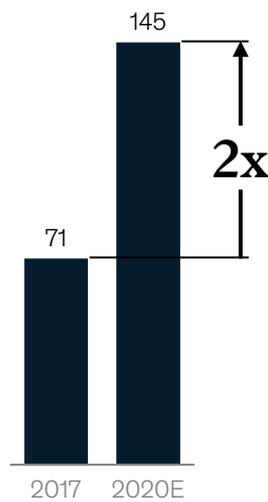
### Sharing, rental, and subscription models are growing

Adults with subscription services, % of online adult sample



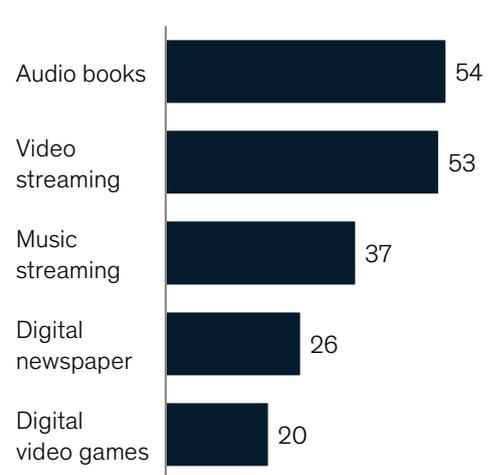
### Secondhand ownership is gaining in popularity

Sales of secondhand goods in China, \$ billion



### A shift to digital, rather than physical, goods and services is ongoing<sup>1</sup>

Annual revenue growth in Asia, compound annual growth rate, 2015–20, %



1. Includes 15 economies in Asia. Audio book, video streaming, music streaming, and digital newspaper are subscription revenue; digital video gaming includes spending on digital downloads, microtransactions, and subscriptions for mobile, console, and PC games. Excludes boxed PC games, boxed console/handheld games, PC browser games, and video games advertising.

Source: China Center for Internet Economy Research; McKinsey Global Media Report; Statista; *The end of ownership report*, Subscribed Institute, 2021; Zuora; McKinsey Global Institute analysis

### Sharing, rental, and subscription models are growing

Sharing, rental, and subscription economies are gaining traction in different domains, including mobility, fashion, electronics, and housing. Subscription services have increased globally, a survey commissioned by Zuora in 2020 found in a phenomenon it calls “the end of ownership.” Consumers increasingly want access to valuable services in a personalized way, and the subscription business model is an effective way to meet this demand. According to the survey, 85 percent of respondents from China said they see subscriptions freeing them from the burden of ownership, and the number of people with subscriptions rose to 89 percent in 2020 from 78 percent in 2018. The average number of subscriptions held by current subscribers rose from 3.6 to 4.0 in that period.<sup>76</sup>

In mobility, ride hailing has taken off strongly in Asia with the emergence of Asian online giants such as Didi, Gojek, Grab, and Ola. The online ride-hailing market grew by more than 10 percent annually from 2017 to 2019 in Asia, according to Statista. But ride hailing is not the only business model innovation on four wheels to address changing notions of ownership. Major car manufacturers such as Toyota and Hyundai, and startups including Carro in Singapore, are launching subscription-based car services.<sup>77</sup> Toyota subsidiary Kinto specializes in offering mobility services, including Kinto One and Kinto Flex, both monthly subscription services that include insurance, maintenance, and registration.<sup>78</sup>

<sup>76</sup> The survey was conducted online by the Harris Poll on behalf of Zuora in October and November 2020. Respondents were in 12 countries, including, in Asia, Australia, China, Japan, New Zealand, and Singapore. See *The end of ownership report*, Subscribed Institute, [reasonwhy.es](https://reasonwhy.es).

<sup>77</sup> Zinnia Lee, “Singapore’s car market Carro becomes unicorn with \$360 million funding round,” *Forbes*, June 15, 2021.

<sup>78</sup> Kinto Mobility, [kinto-mobility.com](https://kinto-mobility.com).

In fashion, renting rather than buying is growing as a consumer option—a worldwide phenomenon.<sup>79</sup> In Asia, companies such as Style Theory are experiencing growth. Style Theory was founded in 2016 in Singapore and has since expanded to serve Indonesia and Hong Kong.<sup>80</sup>

In electronics, a similar story is playing out. The South Korean shopping service Gmarket has experienced more than a fivefold rise in rental services since 2014.<sup>81</sup> This service largely attracts people in their 30s and 40s who are looking for practical ways to consume and have a relatively significant income to spend; Gmarket offers a wide range of items available for rent, from kitchen appliances like dishwashers to massage chairs.

In housing, a shift from ownership to rental is starting to be observed in some of Asia's largest cities. In China, the renting population increased from 11 to 14 percent of the overall population between 2012 and 2019.<sup>82</sup> In Jakarta, the proportion of households that rent rose from 30 percent in 2000 to 38 percent in 2020.<sup>83</sup> One of the drivers of this shift is the declining affordability of ownership in many cities. The Asian Development Bank found that the price-to-income ratio in 211 Asian cities was 15.8, compared with a ratio of 4.0 in many developed economies.<sup>84</sup> A similar analysis of major cities by Numbeo put the price-to-income ratio at 45 in Hong Kong, 37 in Manila, 33 in Mumbai, and 22 in Jakarta, compared with 13 in London and nine in New York.<sup>85</sup>

### **Secondhand ownership is gaining in popularity**

Consumers in Asia are embracing secondhand ownership. More than half of all the digital natives in the Asia–Pacific region say that preowned products have better value than new items because they are cheaper.<sup>86</sup> China amply demonstrates this new trend; its secondhand market is estimated to have doubled since 2017 to \$145 billion in 2020.<sup>87</sup> Launched in 2014, Xianyu is one of the largest online trading platforms for used goods in China, with more than one million users posting more than two million used items every day; the generation born after 1990 accounts for more than 60 percent of this activity.<sup>88</sup> Across Asia, secondhand marketplace apps have taken off, including Danggeun Market in South Korea, Mercari in Japan, and Carousell in Singapore. Mercari experienced a rise in sales during 2020 despite the pandemic as the Japanese government encouraged people to declutter their homes.<sup>89</sup>

### **A shift to ownership of digital, rather than physical, goods and services is ongoing**

Another increasingly pervasive shift is toward ownership of digital, rather than physical, goods and services. This has come in the form of purchasing digital media (such as e-books, and music and video streaming), computer software, and mobile apps including gaming. Revenue from different types of digital goods has increased by between 20 and 54 percent per year in Asia from 2015 to 2020.<sup>90</sup> Revenue generated by Southeast Asia's mobile games market in 2019 grew by about 17 percent from the previous year to total \$3 billion, including in-app purchases.<sup>91</sup> The emerging phenomenon of nonfungible tokens (NFTs) may prove to be another type of this shift. India's largest crypto exchange, WazirX, launched the country's first

---

<sup>79</sup> Imran Amed, Anita Balchandani, Marco Beltrami, Achim Berg, Saskia Hedrich, and Felix Rölkens, "The end of ownership for fashion products?," February 2019, McKinsey.com; and *The State of Fashion 2021: In search of promise in perilous times*, McKinsey & Company, December 2020, McKinsey.com.

<sup>80</sup> Karen Tee, "How Asia is daring to share: The rise of fashion rental services," *South China Morning Post*, January 24, 2019; and Catherine Shu, *Style Theory, a fashion rental startup in Southeast Asia, raises \$15 million led by SoftBank Ventures Asia*, TechCrunch, December 6, 2019.

<sup>81</sup> "Subscription services increasingly popular in S. Korea," *Korea Biz Wire*, September 24, 2019.

<sup>82</sup> Liu Shuai, *Analysis of the development needs and market scale of China's housing leasing industry in 2020. The expansion of rental demand will promote market growth*, Forward – The Economist, December 2020, [qianzhan.com](http://qianzhan.com).

<sup>83</sup> Statistics Indonesia, [bps.go.id](http://bps.go.id).

<sup>84</sup> Matthias Helble, *The housing unaffordability crisis in Asia*, Asian Development Blog, Asian Development Bank, December 2, 2019. The price-to-income ratio compares median housing prices with median family incomes; specific methodologies for calculating the ratio differ by source.

<sup>85</sup> 2021 Mid-year Property Prices Index, Numbeo, [numbeo.com](http://numbeo.com). House price to income is the ratio of median apartment price to median family disposable income. The median apartment size is 90 square meters. Net disposable family income is defined as 1.5 times the average after-tax net salary per person.

<sup>86</sup> Google/Qualtrics Consumer Shift Survey 2019.

<sup>87</sup> Tom Hancock and Wang Xueqiao, "Second-hand market comes in from the cold in China," *Financial Times*, July 30, 2019.

<sup>88</sup> Fan Feifei, "Used goods sector with growing potential," *China Daily*, February 4, 2021.

<sup>89</sup> Kim Kyung Hoon, "As pandemic spurs a tidying frenzy, Japan's secondhand goods market booms," Reuters, December 14, 2020.

<sup>90</sup> McKinsey Global Media Report 2020.

<sup>91</sup> Stephen Bussey, *Why now is the time to localize your mobile game for Southeast Asia*, Andovar, February 24, 2020.

marketplace for NFTs, featuring exclusive works by artists from India and other South Asian nations.<sup>92</sup> The Kansong Art Museum in South Korea plans to mint a 15th-century manuscript as an NFT to be sold to 100 buyers who will each pay \$87,000.<sup>93</sup>

Although new alternatives are emerging, consumers in Asia are not necessarily turning their backs on owning more goods. For example, car ownership in Asia is projected to continue to increase over the next decade (see chapter 3 for further discussion of automotive ownership trends).

## **A “big convergence” is under way in digital ecosystems and super apps**

The nature of consumer demand is being reshaped by a “big convergence” in which many consumer needs are being aggregated and served by different types of digital ecosystems. However, there is no one-size-fits-all approach—different models of ecosystem vary in the degree of integration. At the “lighter” end, one example is the loyalty points program offered by many airlines, including Australia’s largest carrier, Qantas. Qantas’s program has 12 million members. Further along the integration scale is Japanese internet services, fintech, and mobile company Rakuten. In Japan, more than 100 million consumers use a single Rakuten ID across a range of services.<sup>94</sup> Further up the integration spectrum is the generation of new users of multiple platforms with a single customer ID; an example is Ping An OneConnect, offered by China’s leading insurer, which has 218 million offline users and 598 million online users.<sup>95</sup> The Ping An ecosystem generates new leads by building consistent traffic and a large user base via multiple platforms that tap into consumers’ everyday lives.

The most integrated solution is the “super app” model, which originated in Asia. It is defining an apps-within-an-app model that offers a one-stop digital shop, with multiple apps and complementary services integrated within a single app and covering a range of customer needs. One example is China’s WeChat, which has 1.2 billion monthly active users, making it China’s largest app. Another example is South Korea’s Kakao, which has 53 million monthly active users.<sup>96</sup> Kakao has expanded its business from messaging to entertainment and integrated essential functions such as KakaoTalk. Super apps first appeared in China and are now an Asia-wide phenomenon (Exhibit 20).

Successful players have expanded their user bases, while at the same time covering more and more aspects of consumers’ lives, from social media to healthcare and mobility. By adding to their functionality, moving from high-frequency core categories such as social media and mobility to offering increased convenience as “demand aggregators,” super apps have cemented and expanded their presence. In 2021, WeChat had over 1.2 billion monthly active users, while KakaoTalk is now used on a monthly basis by more than 85 percent of South Koreans (Exhibit 21). This may increasingly provide the means to deliver improved outcomes for consumers across Asia.

---

<sup>92</sup> Lachlan Keller, *WazirX launches India’s first NFT marketplace*, Forkast, June 2, 2021.

<sup>93</sup> Park Han-sol, “Hangeul handbook ‘Hunminjeongeum’ to be sold as limited edition NFT,” *Korea Times*, July 23, 2021.

<sup>94</sup> Qantas; Rakuten.

<sup>95</sup> Ping An, August 2021, [group.pingan.com](http://group.pingan.com).

<sup>96</sup> End 2020; Statista for WeChat; Sensor Tower data for Kakao.

## Super apps first achieved scale in China and are now doing so in other Asian economies.

Examples (not exhaustive)

Region	Super apps	Global MAU <sup>1</sup>	CAGR <sup>2</sup>	Domains covered, Q1 2021										
				Social media and messaging	Financial services	Mobility	Food and grocery	Entertainment	Travel	Lifestyle	E-commerce <sup>3</sup>	Health	Cloud storage	
China	Tencent	1,225	8	Starting business	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active
	Alibaba	902	16	Active	Starting business	Active	Active	Active	Active	Active	Active	Active	Active	Active
	Meituan	280	34	Not active	Not active	Active	Starting business	Active	Active	Active	Active	Active	Active	Active
Advanced Asia	Line	203	4	Starting business	Active	Active	Active	Active	Active	Active	Active	Active	Active	Active
	KakaoTalk	53	12	Starting business	Active	Active	Active	Active	Active	Not active	Active	Active	Active	Active
Emerging Asia	Grab	52	63	Not active	Active	Starting business	Active	Active	Active	Active	Active	Active	Active	Active
	Gojek <sup>4</sup>	18	40	Active	Active	Starting business	Starting business	Active	Active	Active	Active	Active	Active	Active
	MoMoPay	4	107	Not active	Active	Starting business	Active	Active	Active	Active	Active	Active	Active	Active
India	MyJio	152	53	Active	Active	Not active	Active	Starting business	Active	Active	Active	Active	Active	Active
	Paytm	66	41	Not active	Starting business	Active	Active	Active	Active	Active	Active	Active	Active	Active
	Flipkart	60	20	Not active	Active	Not active	Active	Active	Active	Active	Starting business	Active	Active	Active

1. Monthly active users, million, as of end 2020. MAU represents users who access the app in a given month, not necessarily those who complete a transaction.

2. MAU compound annual growth rate, 2016–20.

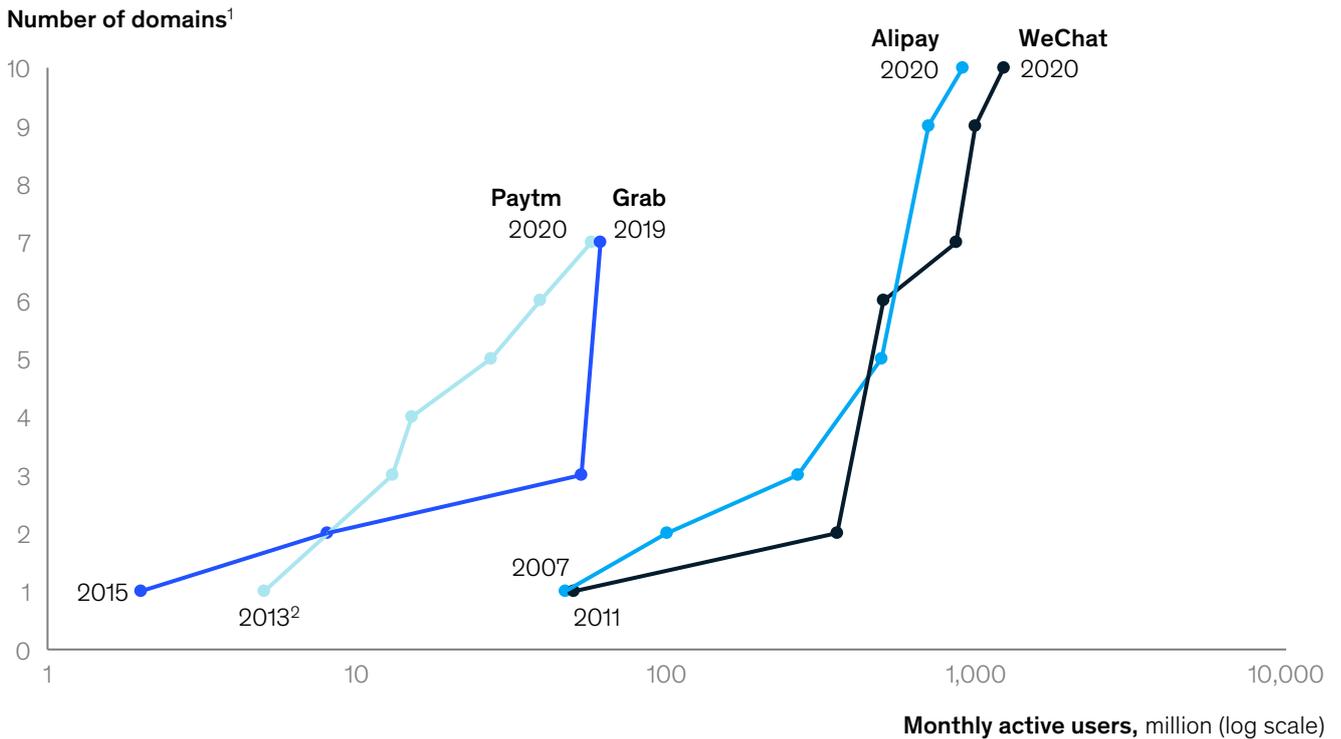
3. B2C or C2C; does not include B2B.

4. Before merger with Tokopedia.

Note: Monthly active users and compound annual growth rates for all non-China apps are estimated using Sensor Tower data, and include core mobile apps only (not desktop or web native apps). Different degrees of integration are observed. Some services may not be fully integrated in the same app, but are part of same digital ecosystem. Some domains are covered only partially or by nascent services that are not yet mature.

Source: Company websites; Sensor Tower; Statista; McKinsey Global Institute analysis

## Super apps gain users over time and serve an increasing share of their daily lives.



1. Demands aggregated to 10 domains: social media and messaging, financial services, mobility, food and grocery, entertainment, travel, lifestyle, e-commerce, health, and cloud storage.

2. Total app downloads in 2013.

Source: Company websites; Sensor Tower; McKinsey Global Institute analysis

A number of Asia-specific characteristics propelled the development and growth of super apps in the region. A vibrant local digital landscape has emerged. Smartphone penetration is high, for instance 73 percent in China and 72 percent in Indonesia in 2020.<sup>97</sup> Many consumers in emerging Asian economies are leapfrogging over adoption of computers and going straight to mobile, and are therefore ready customers for mobile apps. Many sectors are still beset with inefficiencies and gaps in consumer goods and services, which makes consumers more open to innovation and change.<sup>98</sup> Finally, in many Asian countries some of the largest companies, including Vingroup in Vietnam and Reliance in India, have historically played roles across different sectors, from telecommunications to healthcare to retail. For such companies, finding areas of convergence among their different units and thereby enabling them to have a unified view of customers to improve the way they are served may provide an opportunity for growth.<sup>99</sup>

The landscape of super apps varies across the region, but they share a common set of characteristics that have enabled them to aggregate consumer demands (see Box 4, “Common characteristics of super apps”).

<sup>97</sup> Strategy Analytics.

<sup>98</sup> *The future of Asia: How Asia can boost growth through technological leapfrogging*, McKinsey Global Institute, December 2020.

<sup>99</sup> Vingroup; Reliance.

## Common characteristics of super apps

Super apps share a number of characteristics, including the following:

**Initial strong core function driving high-frequency daily use.** The major super apps have aggregated services from an initial core function, for instance messaging for WeChat and KakaoTalk, payments for Alipay and Paytm, and location-based service for Grab, Gojek, and Meituan. These domains drive high-frequency daily use, making it easier for the super app to maintain a close relationship with customers and expand the range of services provided.

**Aggregate additional services that complement the core.** Services

added are complementary to the core, which continues to grow its user base. For example, WeChat was largely a messaging app in the early stages of its development, between 2011 and 2016. During that period, WeChat focused on recruiting users, and monthly active users grew from 50 million to 890 million in just five years. In a second stage, from 2014 to 2018, WeChat began to explore new functions to grow revenue per customer and expanded from two domains (messaging and payments) to ten domains.<sup>1</sup> However, not all super apps are equally “super”—many of them are in the initial stages of promoting cross-usage of their services despite the fact

that, nominally, they may already offer many different domains.

**Focused on local markets.** Super apps tend to offer many services that are highly local and to partner with local businesses. For this reason, the leading super app in most markets is a local player. Some exceptions are emerging, such as Grab, which is growing across Southeast Asia and has monthly active users spread across that region: 32 percent in Indonesia, 17 percent in Thailand, 16 percent in Vietnam, 11 percent in Malaysia, 8 percent in the Philippines, and 5 percent in Singapore.<sup>2</sup>

<sup>1</sup> Number of monthly active users from Statista.

<sup>2</sup> All monthly active users data are based on statistics from Sensor Tower, and only include core mobile apps (desktop or web native apps are excluded).

## The segment of one is emerging as personalization spreads

Personalization is becoming an imperative in increasing numbers of industries, and Asia has the right attributes to make it fertile ground for catering to the “segment of one.”

Asia is set to experience a data explosion in the years ahead. The amount of data created, captured, and replicated is expected to triple from 2020 to 2025 in the region, and as more data become available, companies with analytics capabilities will have more opportunity to offer improved personalized products and services.<sup>100</sup>

Large-scale generation of data is partly enabled by the openness of Asia’s consumers to technological innovation. The proliferation of super apps and digital ecosystems in the region is enabling the collection of vast amounts of data from different domains, unlocking deeper insight into consumers’ behaviors. Finally, Asian consumers say they are willing to share some of their data in exchange for better products and services, sometimes to a greater degree than their counterparts in the rest of the world. A 2021 Euromonitor survey showed that in China, India, and Thailand, more than 45 percent of respondents said that they share their data for personalized offers and deals, compared with less than 30 percent in countries such as France, Germany, and the United Kingdom (Exhibit 22).<sup>101</sup>

It is worth noting two factors that may change the dynamics of data sharing between customers and companies, including the evolution of data protection policies and changing customer attitudes. Many individuals in Asia (and around the world) are increasingly concerned about data privacy.<sup>102</sup> For example, in a 2020 survey of Australians, a majority of respondents said that when they downloaded an app, data privacy was more important than all other considerations such as quality, convenience, or price.<sup>103</sup> Striking the right balance

<sup>100</sup> David Reinsel, John Rydning, and John F. Gantz, *Worldwide Global DataSphere forecast, 2021–2025: The world keeps creating more data—now, what do we do with it all?*, IDC, March 2021.

<sup>101</sup> Euromonitor International Voice of the Consumer: Lifestyles Survey, 2021.

<sup>102</sup> *Asia Pacific consumers increasingly concerned about data privacy*, WARC, March 2019, [warc.com](http://warc.com).

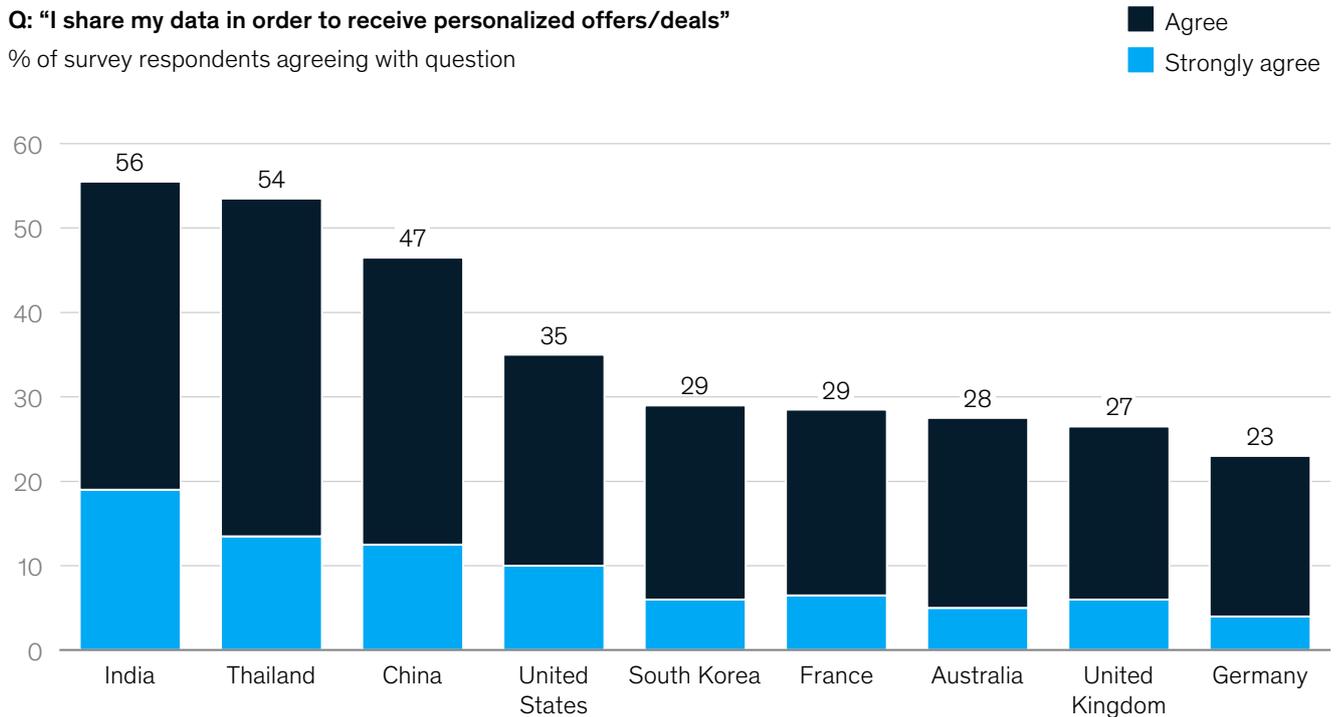
<sup>103</sup> *Australian community attitudes to privacy survey 2020*, Office of the Australian Information Commissioner, September 2020.

## Asian consumers report being more willing than those in other regions to share data for the purposes of personalization.

Survey results

**Q: "I share my data in order to receive personalized offers/deals"**

% of survey respondents agreeing with question



Source: Euromonitor International Voice of the Consumer: Lifestyles Survey, 2021; McKinsey Global Institute analysis

between privacy and personalization outcomes will be a challenge many companies will need to navigate.

Within this changing landscape, many companies are increasingly personalizing their approaches. In doing so, they may need to consider the digital and physical worlds. In the digital world, personalization is already gaining traction; consumers increasingly expect every aspect of their digital journey to be personalized, including interactions, communications, and offers. In China, the Taobao e-commerce platform offers each individual a customized home page showing curated products. Similarly, in South Korea, Naver applies AI-based personalization to its news and search.<sup>104</sup> Hyundai Card analyzes user spending and recommends shopping deals and other relevant content available on "infinite scroll."<sup>105</sup> Advances in technology, data, and analytics will allow the creation of more personal experiences across moments, channels, and buying stages.

In the physical world, personalization is less prevalent but becoming increasingly important, especially as physical spaces become more digitized. Tools such as facial recognition, location recognition, and biometric sensors look to become more widely used.<sup>106</sup> In China, the first Nike Rise store opened in July 2021, offering individuals a personalized shopping journey connecting them to sport, their communities, and one another.<sup>107</sup> In Japan, Unilever offers a personalized shampoo product called Laborica available in 20,000 variations based on consumers' answers to about 30 questions.<sup>108</sup>

<sup>104</sup> "Naver: 'AI-based personalization service increased content consumption,'" Korea Tech Today, April 24, 2019.

<sup>105</sup> Chang May Choon, "South Korean credit card offers personalisation inspired by tech giants," *Straits Times*, October 24, 2020.

<sup>106</sup> Julien Boudet, Brian Gregg, Kathryn Rathje, Eli Stein, and Kai Vollhardt, *The future of personalization—and how to get ready for it*, June 2019, McKinsey.com.

<sup>107</sup> Nike's latest retail concept powered by the pulse of sport, Nike News, July 8, 2020.

<sup>108</sup> Personalized shampoo "Laborica" sent directly from the laboratory, Unilever, July 1, 2019, [unilever.co.jp](https://www.unilever.co.jp).

This trend toward personalization is not just a retail phenomenon and has implications for nonretail sectors. In education, education technology, or edtech, companies such as KnowRe use adaptive learning AI to understand student needs and pinpoint areas where a particular student might need to improve.<sup>109</sup> In healthcare, AIA Vitality, operating across Asia, and Lumi Health in Singapore are personalized gamified health programs that offer rewards upon completing health-related tasks, using smart watches to track health data.<sup>110</sup> AIA offers the programs alongside its health and life insurance offerings to improve the health and well-being of customers.

As more consumers demand more personalization, it is likely to be a prime driver of marketing success in all consumer-facing sectors. Companies that find the right approach to personalization are likely to reap significant rewards, including improved engagement, sales, and marketing spending efficiency.<sup>111</sup>

## **More responsible consumers are an increasing force amid rising concern about sustainability**

Asian consumers are increasingly concerned about sustainability. A 2020 McKinsey survey asked if respondents perceived sustainable packaging as more important than they did before COVID-19, and more than half of respondents in China, India, and Indonesia said that they were more concerned, a higher proportion than among their counterparts in Europe and the United States.<sup>112</sup> In a 2020 Ipsos survey, between 37 and 43 percent of respondents in Asia said they were “much more worried” about climate change than they had been a year earlier, compared with 18 to 27 percent in North America and 19 to 24 percent in Europe.<sup>113</sup> This may reflect a deeper long-term change in consumers’ attitudes. In 2020 results from the World Values Survey, the share of Asian respondents who said they believe the environment should be prioritized over economic growth increased compared to a decade earlier.<sup>114</sup> For example, the share of respondents from Malaysia and Thailand agreeing with this statement increased by ten percentage points, from 47 to 57 percent. In China and South Korea, the increase was even higher, at 15 percentage points and 23 percentage points, respectively. For respondents from the United States and most European countries, the changes were much smaller, with an average increase of five percentage points.<sup>115</sup>

That concern is translating into changing behavior and purchasing decisions across Asia. In an Ipsos poll conducted in late 2019, more than 80 percent of respondents in China, India, and Indonesia said that they had made changes to the products and services they buy because they were concerned about climate change (Exhibit 23).<sup>116</sup> Expressions of intent in surveys do not lead to uniform action, however. In a 2021 Ipsos survey, Asian consumers said that they were willing to take actions such as avoiding products that have a lot of packaging, buying secondhand goods instead of new goods, and saving energy at home, but they were less likely to take other measures, such as eating less dairy or meat and refraining from flying. Nevertheless, respondents from Asian countries reported being more likely to take such actions than their counterparts in Europe and the United States.

Consumption patterns are therefore changing. Consumers are also expressing increased willingness to pay for more sustainable alternative products. In the same McKinsey survey, about 80 percent of Chinese and Indian respondents expressed willingness to pay for sustainable packaging, compared with 45 to 65 percent of respondents in the United

---

<sup>109</sup> KnowRe, [knowre.com](https://www.knowre.com).

<sup>110</sup> AIA Vitality, [aia.com.au](https://aia.com.au); and Lumi Health, [lumihealth.sg](https://lumihealth.sg).

<sup>111</sup> Erik Lindecrantz, Madeleine Tjon Pian Gi, and Stefano Zerbi, “Personalizing the customer experience: Driving differentiation in retail,” April 2020, McKinsey.com.

<sup>112</sup> David Feber, Anna Granskog, Oskar Lingqvist, and Daniel Nordigården, “Sustainability in packaging: Consumer views in emerging Asia,” March 2021, McKinsey.com.

<sup>113</sup> *Obs’COP 2020: Presentation of the findings of the International Climate and Public Opinion Observatory*, EDF and Ipsos, [ipsos.com](https://ipsos.com).

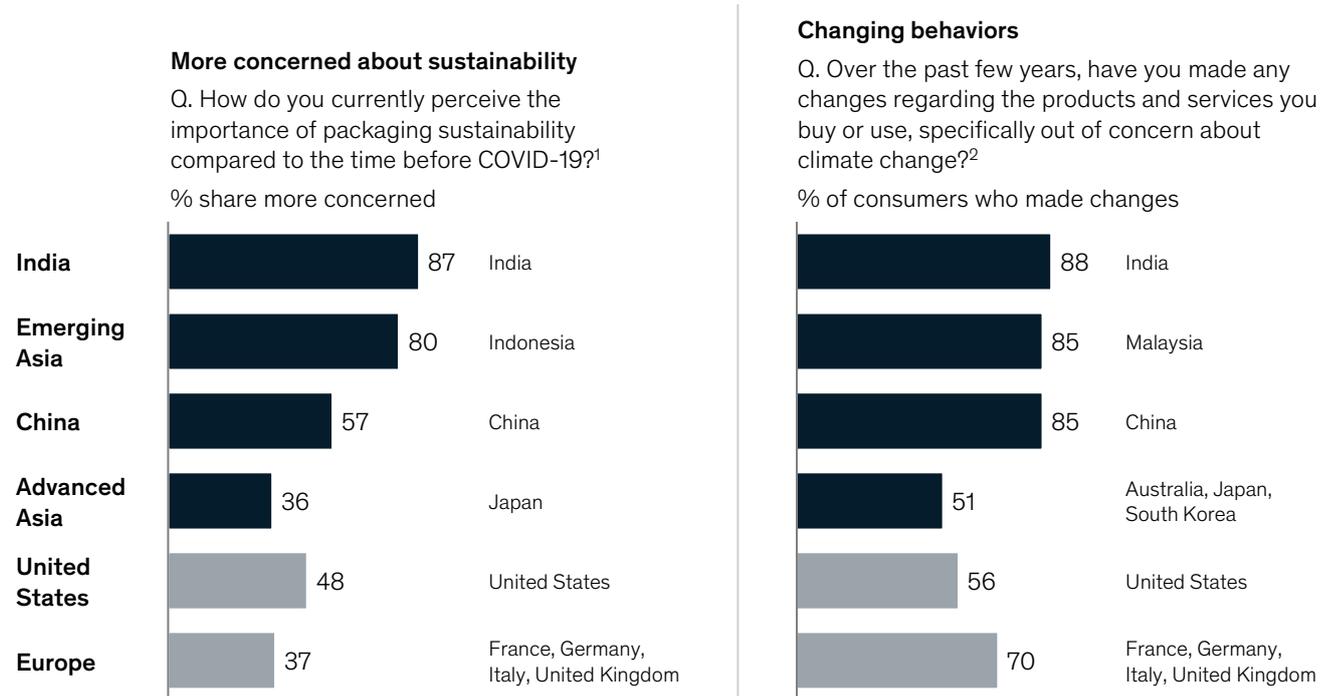
<sup>114</sup> *World Values Survey Wave 7 (2017–20)*, [worldvaluessurvey.org](https://worldvaluessurvey.org); *Climate change and consumer behavior: Global changes in consumer behavior in response to climate change; comparison between Wave 7 results (2017–20) and Wave 5 results (2005–09)*.

<sup>115</sup> Simple average not weighted by population for Germany, Italy, Spain, the United Kingdom, and the United States.

<sup>116</sup> Ipsos for the World Economic Forum, December 2019, [ipsos.com](https://ipsos.com); and David Feber, Anna Granskog, Oskar Lingqvist, and Daniel Nordigården, “Sustainability in packaging: Consumer views in emerging Asia,” March 2021, McKinsey.com.

## Asian consumers are increasingly eco-conscious.

Survey results



1. McKinsey Packaging Survey, 2020.

2. Ipsos survey of 19,964 online adults aged 16–74 in 28 countries, conducted October–November 2019.

Note: Countries for each grouping selected based on data availability. Averages for multiple countries are not weighted by population.

Source: Ipsos; McKinsey Packaging Survey; McKinsey Global Institute analysis

States and Western Europe.<sup>117</sup> China’s e-commerce player JD said that the volume of green purchases on its platform rose by as much as 70 percent in 2017, with local Chinese brands accounting for more than 85 percent of such sales.<sup>118</sup>

However, intentions expressed by individuals responding to survey questions do not always translate to buying behavior. In particular, the level of willingness to pay is often below effective price premiums, and growth in sustainable alternatives will depend on this gap narrowing. For example, only 10 percent of Chinese consumers said they were willing to pay a premium of 20 percent or more for categories ranging from food to electronics, household goods, and furnishings. However, the effective premiums for sustainable products in those categories often exceed 30 percent. A substantial gap still separates willingness to pay and effective price premiums.<sup>119</sup> Rising incomes may contribute to reducing this gap. In the same consumer survey, 15 percent of Chinese consumers in the highest income bracket said they were willing to pay a 20 percent premium or more, compared with 10 percent for the total surveyed population.

Supply-side innovation and regulatory action may be required to accelerate this shift and unleash new opportunities. Some companies are finding innovative ways of reducing the price of green goods. For instance, a Chinese-manufactured electric vehicle (EV) costs only about \$5,000 and is one of the best-selling EVs in the world (the vast majority of its revenue coming from domestic sales).<sup>120</sup>

<sup>117</sup> David Feber, Anna Granskog, Oskar Lingqvist, and Daniel Nordigården, “Sustainability in packaging: Consumer views in emerging Asia,” March 2021, McKinsey.com.

<sup>118</sup> Yuchuan Wang, *Chinese consumers embrace sustainable consumption*, JD.com corporate blog, January 23, 2018, [jdcorporateblog.com](http://jdcorporateblog.com).

<sup>119</sup> *Report on consumer awareness and behavior change in sustainable consumption*, China Sustainable Consumption Research Program, [oneplanetnetwork.org](http://oneplanetnetwork.org).

<sup>120</sup> James Fernyhough, “Wuling Mini outsells Tesla Model 3, as China dominates global top 10 EV sales,” *The Driven*, March 1, 2021.

## Public policy may influence consumer shifts

The way the ten growth angles will play out over the next decade is contingent on a complex web of interactions between consumers, businesses, investors, and governments. Public policy has the potential to greatly influence how these factors play out. Consider the following examples.

**Smaller households.** Governments can exert some influence on demographic trends, but only over the very long term. Public policy is more likely to focus on new needs created by demographic change. Single-person housing is one example; there is likely to be more demand for single units and rental housing. As the number of single-person households has risen across the region, policy has adjusted. In Singapore, for instance, the Housing and Development Board, which regulates the public rental housing sector, in the past allocated flats to promote “traditional family values” to families before single people. Those rules have slowly been relaxed, and now single citizens are allowed to purchase the flats.<sup>1</sup>

**Aging.** The robustness of senior consumption will depend on whether consumers in this age group are sufficiently financially secure. As many as 300 million seniors in Asia may live on less than \$11 a day in PPP terms by 2030. Public pension and social security policy can be an important influence here. In addition, the speed of adoption of digital channels by seniors depends on access, and policies on digital inclusion will have an influence. Many governments are striving to increase digital access for seniors. In China, for instance, the state council issued an “implementation plan on effectively solving the difficulties of the elderly in using intelligent technology” to provide a road map for regional and local policy makers.<sup>2</sup> In Australia, the government’s Be Connected initiative aims to increase the confidence, skills, and online safety of older citizens in using digital technology. The initiative includes a website with information and interactive training tools, and free access to personalized support and mentoring.<sup>3</sup>

**Women’s economic empowerment.** Government policy exerts a profound influence on various aspects of women’s economic empowerment through a multitude of interventions. Several governments in Asia subsidize childcare or mandate companies to provide facilities for working parents. For instance, Australia provides government subsidies to help cover childcare costs, while India’s Maternity Benefit Act requires companies with 50 or more employees to provide crèche facilities. Another area where governments can play a vital role is in instituting policies to ensure that women have the skills they need to work in higher-paid jobs. In the Philippines, for instance, the Technical Education and Skills Development Authority’s Women’s Center offers vocational training to equip women for work in industrial sectors traditionally dominated by men. Courses include electrical installation and maintenance, motorcycle and small engine servicing, and plumbing. In its 2015 annual report, the authority said women had achieved an employment rate of about 60 percent six months after completion of its training courses.<sup>4</sup>

<sup>1</sup> *International models for delivery of affordable housing in Asia*, Royal Institution of Chartered Surveyors, May 2019.

<sup>2</sup> General Office of the State Council of China, *Implementation plan on effectively solving the difficulties of the elderly in the use of intelligent technology*, November 24, 2020; and *How China is harnessing technological innovation to become an age-friendly society*, World Health Organization, March 14, 2021.

<sup>3</sup> *Be Connected – improving digital literacy for older Australians*, Australian Government Department of Social Services, [dss.gov.au](https://dss.gov.au).

<sup>4</sup> *The power of parity: Advancing women’s equality in Asia Pacific*, McKinsey Global Institute, April 2018.

**Segment of one and personalization.** The spread of personalization, to an extent, hinges on consumer attitudes toward use of their personal data for this purpose. Surveys have found that nearly half of customers polled wanted increased government regulation to protect data privacy.<sup>5</sup> Customer concerns about use of their online data could hold back the scaling up of personalized marketing.<sup>6</sup> In Asia, the regulatory landscape is evolving quickly. China, India, Japan, Singapore, and Vietnam, among others, have all introduced, or were considering introducing in summer 2021, new legislation related to data protection.<sup>7</sup> Several aspects of personalization, including approaches to privacy, data generation, storage, sharing, and monetization, can be affected by regulation.

**Eco-responsibility.** Public policy exerts significant influence on almost every aspect of sustainability, and governments are increasingly proactive in this regard. One prominent example is a broad drive among governments to improve the sustainability of packaging. Australia has a target of making 100 percent of packaging recyclable, compostable, or reusable. Thailand announced a ban on single-use plastic bags in major stores at the start of 2020, and China is proposing a ban by 2022. In India, legislation favors recyclable substrates and formats.<sup>8</sup> Governments in Emerging Asia are taking action to promote the redesign of packaging to facilitate recycling, setting waste targets, and promoting stakeholder public-private partnerships to address waste management.<sup>9</sup> One of the most eye-catching examples of government action to promote sustainability is subsidies for cars powered by clean energy. In April 2020, China, for instance, announced a two-year extension to its subsidies for new energy vehicles; they will now be in place until the end of 2022.<sup>10</sup> In Japan, the government provided eight billion yen (\$77.1 million) of EV subsidies in January 2021, covering 10,000 battery electric vehicles.<sup>11</sup>

Beyond consumer shifts explored here, policy can have significant impact in many domains and sectors, influencing consumption growth and customer outcomes depending on how policy is set and implemented.

---

<sup>5</sup> April 2018 Reuters/Ipsos poll of 2,237 people in the United States and Gallup poll of 1,509 individuals in the United States between April 2 and 8. See Julien Boudet, Brian Gregg, Kathryn Rathje, Eli Stein, and Kai Vollhardt, "The future of personalization—and how to get ready for it," June 18, 2019, McKinsey.com.

<sup>6</sup> Julien Boudet, Jess Huang, Kathryn Rathje, and Marc Sorel, "Consumer-data privacy and personalization at scale: How leading retailers and consumer brands can strategize for both," November 7, 2019, McKinsey.com.

<sup>7</sup> *Asia Pacific data protection and cybersecurity guide 2020*, Hogan Lovells, 2020.

<sup>8</sup> Peter Berg, David Feber, Anna Granskrog, Daniel Nordigården, and Suku Ponkshe, "The drive toward sustainability in packaging—beyond the quick wins," January 30, 2020, McKinsey.com.

<sup>9</sup> "A circular economy for a sustainable plastic future," Asian Development Bank, November 2020.

<sup>10</sup> Hongyang Cui and Hui He, *China announced 2020–2022 subsidies for new energy vehicles*, The International Council on Clean Transportation, July 13, 2020.

<sup>11</sup> Kaoru Natsuda, *The drive for electric vehicles in Asia*, East Asia Forum, February 2021.

---

Asia's consumer landscape is changing rapidly in an era of social, demographic, and technological transformation. New behavior and preferences are coming to the fore and driving consumption growth in certain areas—and sometimes in ways that are distinct to Asia and to other parts of the world. What does this mean for companies and investors seeking to serve these markets? One clear message is that income may no longer be the primary driver of consumption patterns, and therefore that the income-driven S-curve many companies have used to anchor strategy may no longer fit that purpose in many categories. Instead, a more multivariate understanding of consumers will be required. In the next chapter, we look at a shift from income-driven to market-specific consumption and the value that may move to new consumption curves in key sectors.

### 3. Beyond income: Value shifts to new consumption curves

The diversifying Asian consumer landscape and the ten shifts we have highlighted are changing the way demand plays out in many categories. As companies respond to these changes with new offerings, business models, and technology-enabled innovation, the conventional relationship between income and consumption patterns is breaking down in many categories. As a result, categories for which penetration was previously well predicted by income levels are now subject to new market-specific consumption curves that companies and investors could usefully factor into their thinking. In many cases, companies may put themselves at a competitive disadvantage by waiting for countries to reach the tipping point of S-curve development, at which the growth in consumption of a given category accelerates. Markets that would be deemed unripe for entry in income-driven S-curve thinking are already being served by companies that succeed in innovating their business model or cost structure. New approaches are emerging, and it may be time for companies to reimagine what they think they know about Asia's consumer markets.

In the first part of this chapter, we look at archetypes of new consumption curves. In the second part, we look at key sectors, analyzing how much demand may shift to new consumption curves, and which growth angles may be explored by companies aiming to create new value and growth. In the sectors analyzed for this paper, namely automotive, CPG, financial services, and residential real estate, between 15 and 65 percent of value could follow new consumption curves, depending on the sector. Companies need to consider how these shifts could play out in their sector, how much value could shift, and the impact of those shifts on the sector's competitive dynamics.

#### **Market-specific consumption curves are emerging in Asia's diversifying consumer markets**

Income-driven S-curves have long been a useful instrument in the standard corporate toolbox.<sup>121</sup> As incomes grow across geographies, the penetration of goods and services has typically followed an S-curve rather than a straight line. This curve starts with a "warm-up zone" where consumption growth gathers steam and consumer incomes begin to rise; continues into a "hot zone" where consumers have sufficient income and penetration of those products accelerates; and, finally, enters a "chill-out zone" where penetration is high and consumption begins to plateau. Historically, S-curves have varied in shape depending on the category of consumption. In the case of refrigerators and washing machines in China, for instance, the hot zone started at annual incomes of \$2,500 and \$10,000 (in purchasing power parity terms), respectively. S-curves were relatively familiar to companies for which various categories were relevant, and that used them to plan for the right time and right market.

However, new forms of access to goods and services—often enabled by digitization, cost innovation, and the emergence of new business models—are creating consumption patterns that are less driven by income in some cases. Income-driven S-curves are mutating or flattening in cases where income is no longer a barrier to consumption. Access to many goods and services is rising, democratizing consumption. In short, income-driven S-curves alone are increasingly not sufficient if companies are to understand the diversifying consumer market in Asia and potentially in many other geographies. In this chapter we highlight three archetypes of potential changes S-curves may experience, each driven by different underlying forces and likely to play out in different types of categories: new "access curves," where income ceases to be a good predictor of consumption patterns; "breakaway" curves that unfold in cases in which new consumption categories emerge; and "shifting" S-curves, where supply or demand shocks lead to a shift in the position of the curve (Exhibit 24).

---

<sup>121</sup> *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012; and Yuval Atsmon, Peter Child, Richard Dobbs, and Laxman Narasimhan, "Winning the \$30 trillion decathlon: Going for gold in emerging markets," *McKinsey Quarterly*, August 2012.

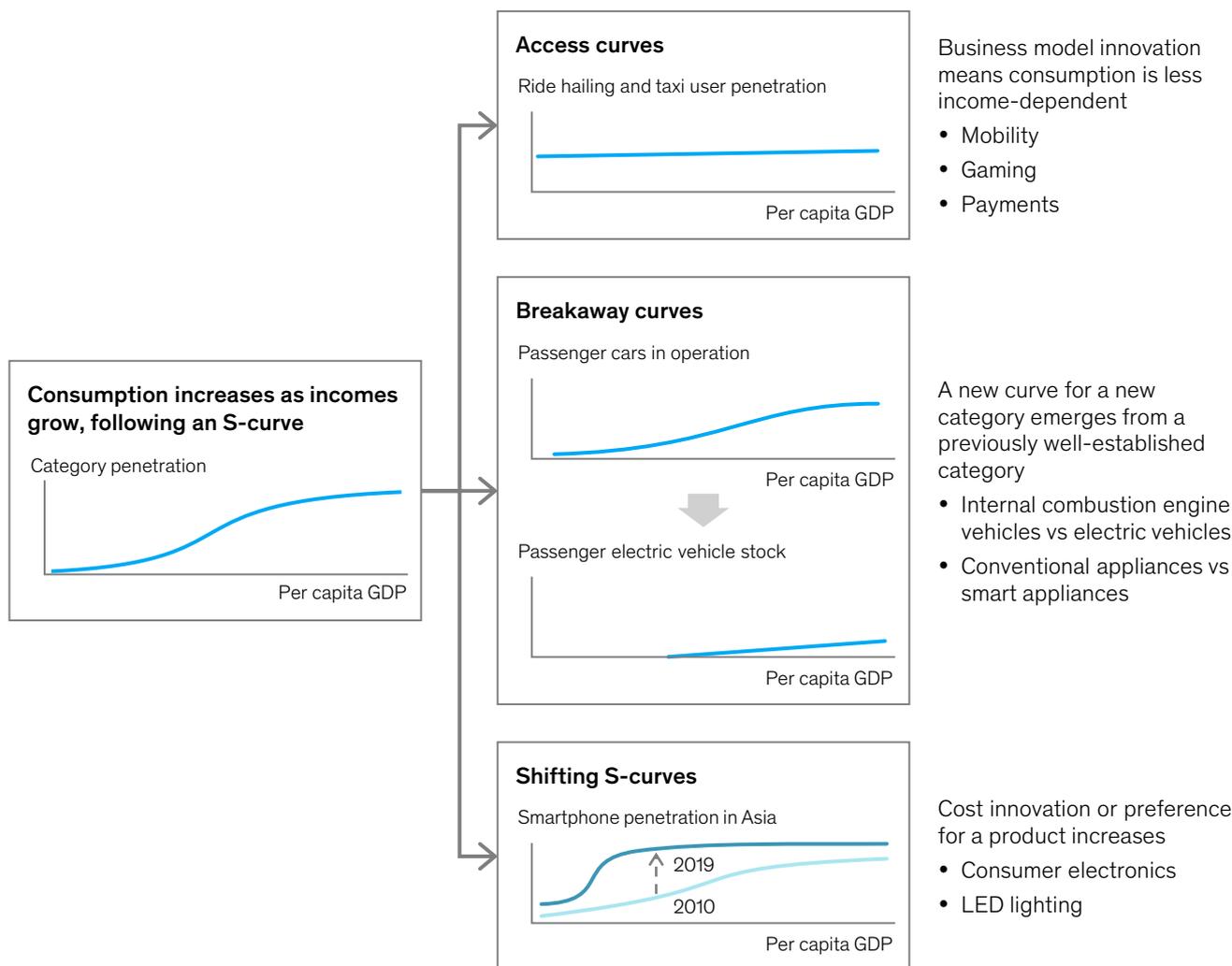
**S-curves may experience three changes, forming new consumption curves.**

Illustrative

**From income-driven S-curve ...**

**... to market-specific consumption curves**

**When it happens**



Source: McKinsey Global Institute analysis

**Access curves arise in cases where business model innovation is creating new ways of accessing goods and services**

For some categories, the relationship between income and consumption is becoming less pronounced. This phenomenon plays out in categories where business model innovation and digital platforms unlock latent demand by enabling lower-income consumers to obtain services that they could not previously access or were priced out of, for instance by creating a discontinuity in the “price of admission.” One prominent example of how companies can create increased access is by tailoring their revenue model, shifting from one-off sales with a higher entry price to sharing, freemium, or advertising-supported models. Highlighted here are new access curves for mobility, gaming, and banking (Exhibit 25).<sup>122</sup>

<sup>122</sup> Similar curves appear in other categories, including music and video, which follow much less income-correlated consumption curves than their traditional counterparts of album sales and movie attendance.

# Access curves: New forms of ownership and business model innovation may unlock previously priced-out consumers.

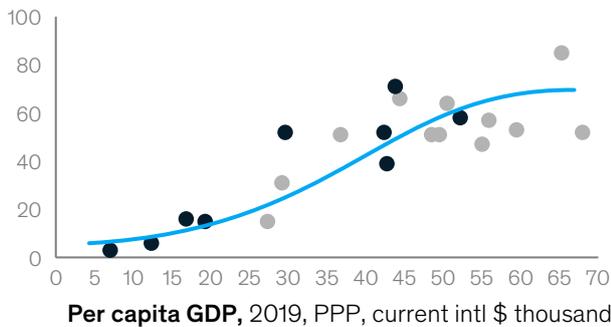
● Asia ● Non-Asia

From income-driven S-curves ...

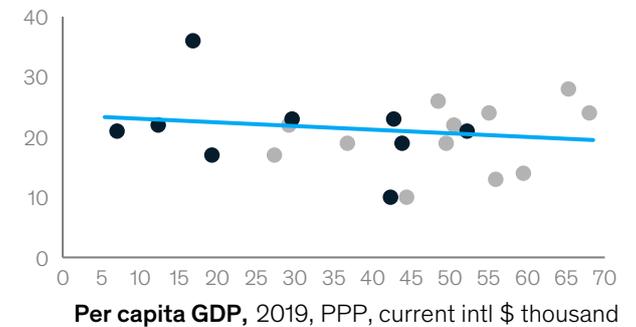
... to access curves

## Mobility

**Passenger cars in operation, 2020, per 100 people<sup>1</sup>**

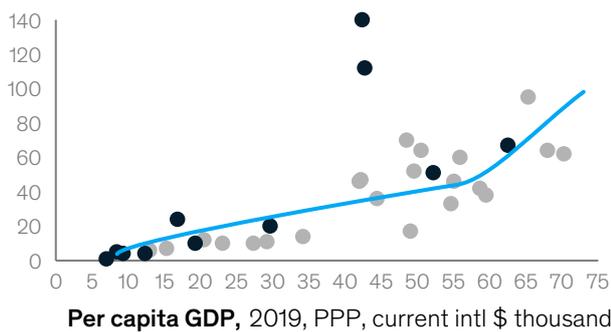


**Ride hailing and taxi user penetration, 2020, % of population<sup>2</sup>**

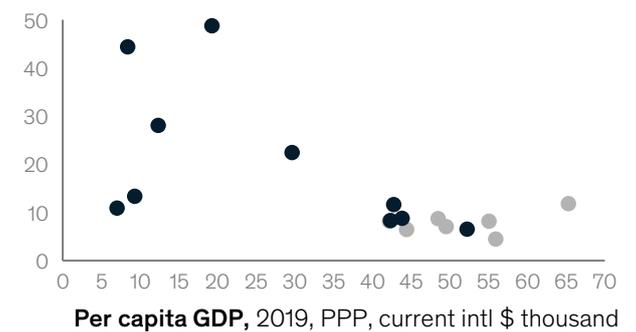


## Gaming

**Per capita gaming spending, 2020, \$<sup>3</sup>**

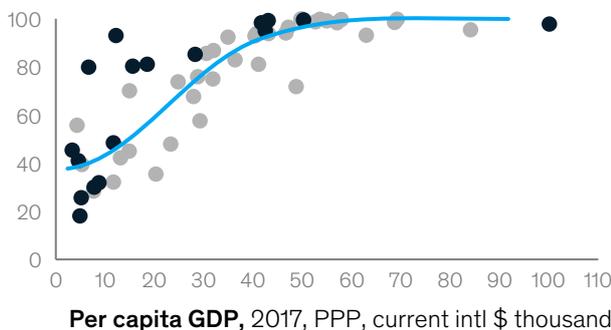


**Penetration of top mobile game, Q1 2021, %<sup>4</sup>**

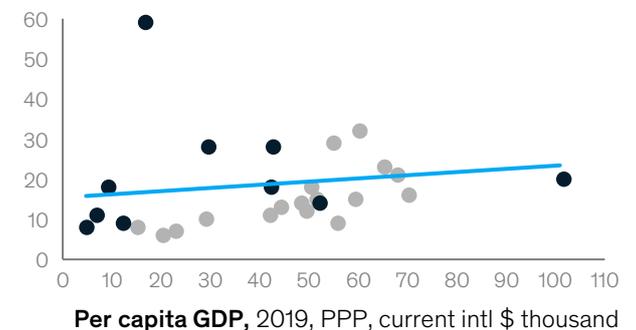


## Banking

**Financial institution account penetration, 2017, % age 15+**



**Digital wallet penetration, 2019, % of population<sup>5</sup>**



1. Cars in this context do not take into account vans or trucks, but include pickup trucks.  
 2. Includes both online and offline.  
 3. Gaming revenue 2019 divided by population estimates 2020.  
 4. Total monthly average users of top mobile game divided by population.  
 5. % of population who have made at least 1 proximity mobile payment transaction in the past 6 months (includes point-of-sale transactions made using a mobile device as payment method; excludes transactions made via tablet).  
 Note: Each dot represents 1 economy. Curves are illustrative.

Source: McKinsey Center for Future Mobility; Newzoo; Sensor Tower; Statista; Strategy Analytics; United Nations, World Bank; McKinsey Global Institute analysis

- **Private vehicle–based mobility.** The penetration of car ownership follows a well-established S-curve, experiencing a sharp increase when countries reach sufficiently high incomes. However, new mobility solutions such as ride hailing have a different profile. Penetration is much less dependent on income because consumers who cannot afford to own a car can still have access to private vehicle–based mobility because it is relatively inexpensive, and price is therefore no longer a barrier. Countries with relatively lower incomes such as Indonesia and Malaysia have higher levels of penetration of ride hailing than higher-income nations such as Japan and South Korea. Asian companies have driven high penetration rates and created many of the region’s large technology players, including Didi in China, Grab and Gojek in Southeast Asia, and Ola in India.
- **Gaming.** Per capita spending on console-based gaming follows a well-established S-curve, with Japan and South Korea particularly big-spending outliers.<sup>123</sup> By contrast, mobile gaming penetration has a much more limited relationship with income levels. It is notable, for instance, that relatively lower-income economies including Thailand and Vietnam have some of the highest levels of penetration of mobile gaming.<sup>124</sup> This is partly explained by the different price of admission to mobile gaming. While console-based gaming usually requires significant up-front investment in both a console and relatively more expensive games, many of the top mobile games follow freemium or advertising-supported models that users can acquire at little to no cost. Demand is shifting between these two models. Over the past seven years, the mobile gaming market went from being worth 40 percent less than the computer and console market combined to being worth 50 percent more.<sup>125</sup> This mobile gaming market boom is providing new opportunities for Asian companies. Asia–Pacific accounts for less than 20 percent of console spending but roughly 50 percent of expenditure on mobile gaming. Asian mobile-gaming players such as Krafton of South Korea have thus achieved significant growth in the region by tapping into the large numbers of consumers who do not own consoles. Its PUBG Mobile game has racked up \$5 billion in total spending by players.<sup>126</sup> The three highest-grossing mobile games in the world in 2020 were all created by Asian companies, in China, Japan, and South Korea.<sup>127</sup>
- **Banking.** The penetration of many financial services, including bank accounts, credit cards, and mortgages, follows an income-driven S-curve.<sup>128</sup> Consumers in lower income brackets in Asia have historically had less access to financial services, but the emergence of new forms of access, including digital wallets and mobile payments, is changing that.<sup>129</sup> Many consumers in the region are now able to leapfrog traditional banking services straight to new solutions created by fintech players and innovative banks. The relationship between income and access to mobile payments is therefore flatter than the S-curve for other financial services products. For instance, while penetration of bank accounts in the Philippines and Indonesia of about 30 to 50 percent, respectively, lags behind that of Western Europe (above 95 percent), the same is not true for mobile payments, where these countries all have penetration rates of around 10 to 20 percent.

---

<sup>123</sup> Console penetration follows a similar income-driven S-curve.

<sup>124</sup> Exhibit 25 shows penetration of the most played mobile game in each country. To account for different levels of market concentration, we tested the profile of this curve using alternative methodologies, including considering cumulative penetration of the top three or the top five mobile games in each country. The results were similar, with no clear relationship between income and penetration levels.

<sup>125</sup> *Gaming Spotlight 2021 review*, App Annie and IDC, 2021.

<sup>126</sup> *PUBG Mobile grosses \$5 billion after generating an average of \$7.4 million per day in 2020*, Sensor Tower, March 25, 2021.

<sup>127</sup> *PUBG Mobile tops list of billion-dollar mobile games in 2020*, Sensor Tower, December 15, 2020.

<sup>128</sup> Calculations based on the World Bank’s Global Financial Inclusion (Global Findex) database.

<sup>129</sup> Digital and mobile wallets include different types of electronic payment mechanisms through a computer or smartphone, which do not rely on a physical debit or credit card.

Companies wishing to adjust to these new curves may consider how rethinking their revenue model may create opportunities to tap into underserved consumer cohorts, thereby potentially providing them with first-mover advantage when creating new client relationships.

### Breakaway curves appear when new categories emerge

For some categories, innovations in products or services are distinct enough for a breakaway curve to appear as new demand gains traction. In many cases, penetration of a conventional product has reached a sufficiently high level for consumers to be willing to trade up, and companies respond by innovating their offerings. These new breakaway curves are likely to eventually form a “new” S-curve, but they currently display much lower rates of penetration. They are therefore characterized as categories for which the majority of countries have not yet reached the tipping point where adoption explodes upward. New breakaway curves may appear in, for instance, EVs and smart appliances (Exhibit 26).

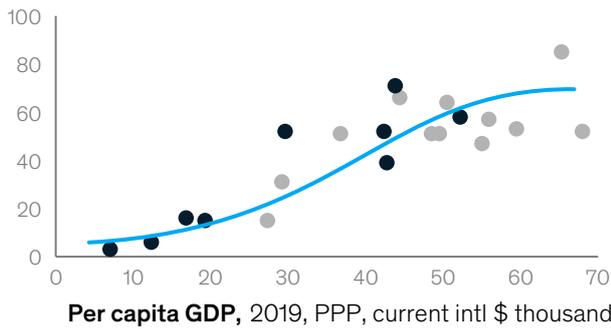
Exhibit 26

### Breakaway S-curves illustrate new horizons of growth.

● Asia ● Non-Asia

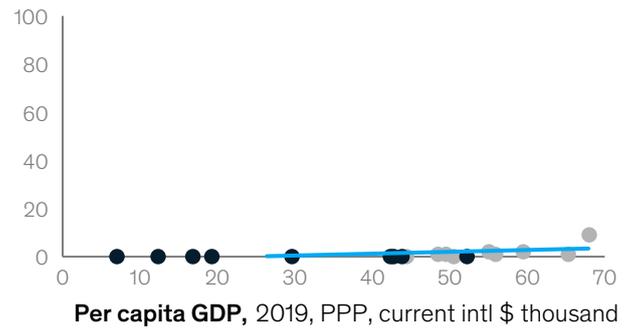
#### From income-driven S-curves ...

Passenger cars in operation, 2020, per 100 people<sup>1</sup>



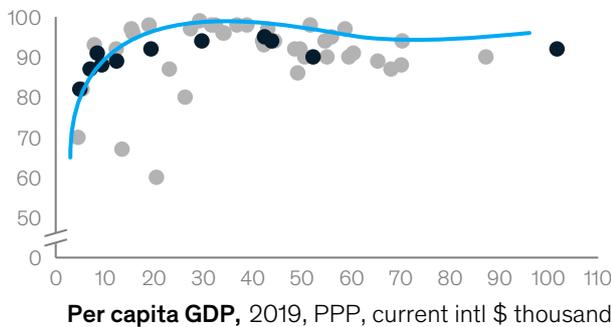
#### ... to breakaway curves

Passenger electric vehicle stock, 2020, per 100 people<sup>2</sup>



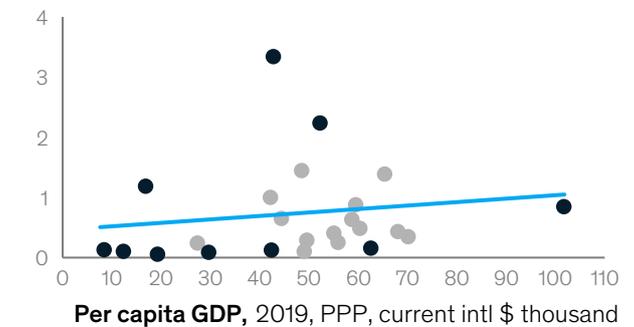
#### Conventional refrigerators

Refrigerator penetration, 2020, % of sample of households in each country



#### Smart refrigerators

Connected fridge-freezer units sold, 2020, per 100 households<sup>3</sup>



1. Cars in this context do not take into account vans or trucks, but include pickup trucks.

2. Includes battery EVs, plug-in hybrid EVs, and fuel cell EVs.

3. Number of fridge-freezers able to connect to the internet sold in 2020, divided by number of households in McKinsey Cityscope v4.1.

Note: Each dot represents 1 economy. Curves are illustrative.

Source: Euromonitor; McKinsey Center for Future Mobility; McKinsey Cityscope v4.1; Statista; World Bank; McKinsey Global Institute analysis

- **Automotive.** The penetration of vehicles powered by the internal combustion engine (ICE) follows a well-established S-curve. However, a new breakaway curve is appearing for battery-powered EVs. Currently, these show low levels of penetration, with most countries still reaching the explosive growth stage, which is expected to occur during the next decade (see section on the automotive sector later in this chapter).
- **Appliances.** The penetration of appliances, including, for instance, conventional refrigerators, follows a well-defined S-curve. However, as many markets are near peak penetration, a new horizon of growth may be opening up. In the case of refrigerators, smart versions have low levels of penetration across the world. South Korea has the highest penetration rate for these appliances, but even there, fewer than four smart fridges were being sold per 100 households in 2021, according to Euromonitor. Those sales were largely by South Korean companies such as LG and Samsung. Companies may have opportunities to increase penetration if consumer demand for these products continues to grow. As with any different new product, it is not guaranteed that a new S-curve will emerge; in some categories, access to innovative new products or services may continue to be restricted to those with high incomes, and therefore these products or services may not attain mass adoption.

Companies wishing to capitalize on this trend may consider which new horizons of growth may be unlocked in previously mature categories. The emerging trend of eco-conscious consumption may mean that consumers are willing to trade their usual consumption for more sustainable alternatives, which in the present show much lower penetration rates, for example.

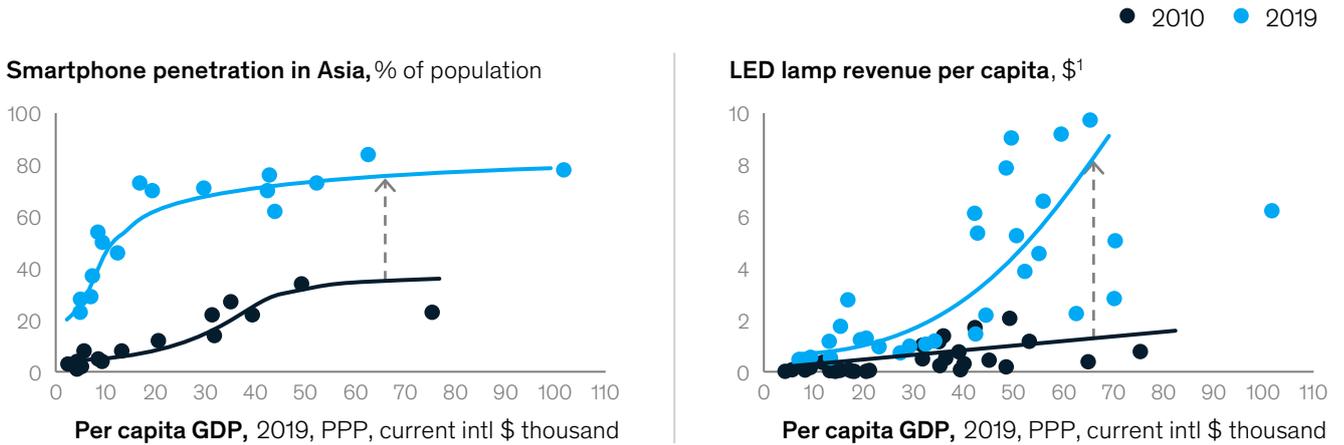
### **Shifting S-curves are driven by cost innovation or changes in consumer preference**

Even in categories where a strong relationship with income continues, S-curves may shift, with penetration rates evolving faster than income growth would predict and tipping points occurring at an earlier stage in economies' development. These shifts in position may occur in categories that experience large supply or demand shocks. On the demand side, shifting preferences may lead to an upward shift in S-curves. Trends such as smaller households, the increasing prominence of digital natives in consumption, the potential of women's economic empowerment, and increased personalization may all lead to demand shifts over the coming decade. On the supply side, cost innovation and the commoditization of some goods are enabling markets to enter the explosive growth stage of S-curves at lower incomes. Companies aiming to serve the lower income levels of the pyramid through a design-to-value approach may find new opportunities for growth in previously unripe markets. Here we highlight shifting S-curves for smartphones and LED lights (Exhibit 27).<sup>130</sup>

---

<sup>130</sup> Ankur Agrawal, Mark Dziarski, Dave Subburaj, and Kieran West, "Design for value and growth in a new world," April 2017, McKinsey.com.

**Shifting S-curves are driven by cost innovation or changes in consumer preference.**



1. Fixed 2020 exchange rates, retail value.  
 Note: Each dot represents 1 economy. Curves are illustrative.  
 Source: Euromonitor; Strategy Analytics; World Bank; McKinsey Global Institute analysis

- **Smartphones.** The smartphone penetration S-curve has shifted over the past decade to have an earlier and more pronounced tipping point. Both demand and supply shocks have contributed. As smartphones become more essential to daily needs and expand the range of purposes they fill in everyday life, demand has risen robustly. At the same time, the introduction of much lower-cost alternatives has been a supply shock. These disruptors have often been Asian. Examples include Oppo, Vivo, and Xiaomi. In India, for instance, these three companies (including sub-brands) account for more than 60 percent of the smartphone market in the first quarter of 2021.<sup>131</sup>
- **Light-emitting diode (LED) lights.** From 2010 to 2019, the S-curve for LED lights shifted up. When the technology was introduced, consumption largely followed a breakaway curve as a new subcategory within lighting. Over the past decade, a mix of increased demand, public policy, and cost innovation has led the consumption curve to shift upward. In some cases, cost of production decreased up to 90 percent from 2008 to 2014.<sup>132</sup>

**Consumer shifts could move 15 to 65 percent of value pools to new consumption curves, depending on the sector**

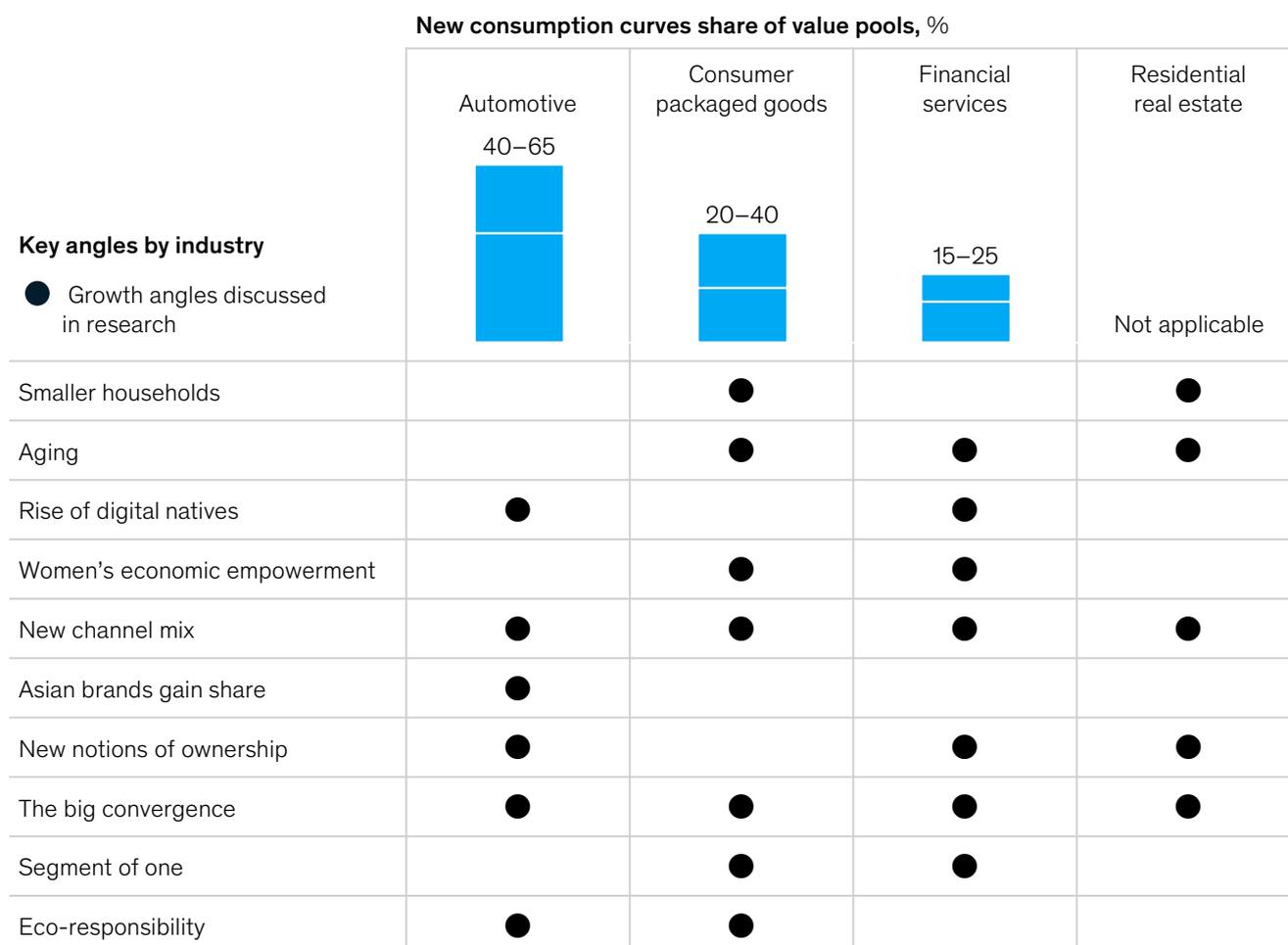
Companies that take a granular approach to understanding their consumers will have a better chance of capturing a larger portion of new sources and types of demand that may emerge (Exhibit 28). In each of the sectors analyzed, we look at how companies could leverage the ten new growth angles described in chapter 2, how capturing these opportunities could create value for consumers, and what share of value pools over the next decade could potentially follow new consumption curves.

<sup>131</sup> India smartphone market share: By quarter, Counterpoint, March 2021, [counterpointresearch.com](https://www.counterpointresearch.com).  
<sup>132</sup> Revolution ... now: The future arrives for five clean energy technologies—2015 update, US Department of Energy, November 2015.

## Asia’s shifting consumption map and new growth angles could shift significant sector value to new curves.

### New consumption curves share and key growth angles by industry

Simulation



Note: Estimates of the share of new consumption curves are the result of a simulation based on a specific set of conditions and assumptions; they should not be taken as specific forecasts.

Source: McKinsey Global Institute analysis

### Automotive: New forms of ownership, rising eco-conscious consumption, and new channels are creating new opportunities

Automotive players seeking growth in Asian consumer markets in the next decade may consider changes from the ten growth angles explored that could potentially shift 40 to 65 percent of automotive value pools to new consumption curves.

Mobility across the world is changing, with a new multimodal mix emerging (see Box 6, “Different multimodal mixes are emerging among cities and among countries”). Broader changes in mobility, driven by autonomous, connected, electric vehicles, will affect the automotive sector.<sup>133</sup> Over the next decade, changes in the automotive sector may generate new opportunities for value creation for consumers, potentially including increased accessibility through shared mobility, improved environmental quality, more choice of vehicles with different ecological footprints as EVs become mainstream, reduced traffic incidents and congestion, and reduced time spent commuting arising from the new mobility mix.<sup>134</sup>

<sup>133</sup> Kersten Heineke and Philipp Kampshoff, “The trends transforming mobility’s future,” *McKinsey Quarterly*, March 2019.

<sup>134</sup> Shannon Bouton, Eric Hannon, Stefan Knupfer, and Surya Ramkumar, “The future(s) of mobility: How cities can benefit,” June 2017, McKinsey.com.

### Different multimodal mixes are emerging among cities and among countries

Around the world, the modal mix among countries and among cities differs (Exhibit 29). While shared mobility, especially pooled mobility, is projected to increase significantly in many Asian cities, there are nuances in the evolution of other forms of transportation. In Emerging Asian cities such as Bangkok, private vehicle transportation is projected to remain the largest form of transportation, albeit with a potential small decline in share in the period to 2030. In contrast, in large Advanced Asian

metropolises such as Seoul and China's tier-one cities such as Beijing, public transportation is likely to account for the majority of passenger kilometers traveled, coexisting with a significant share of shared mobility and a gradually declining share of private-vehicle-based transportation. This reflects high congestion, limited parking, further development of public transport, and the emergence of shared micromobility. In Indian cities such as Mumbai, public transit is likely to continue to be the main form of transport as high

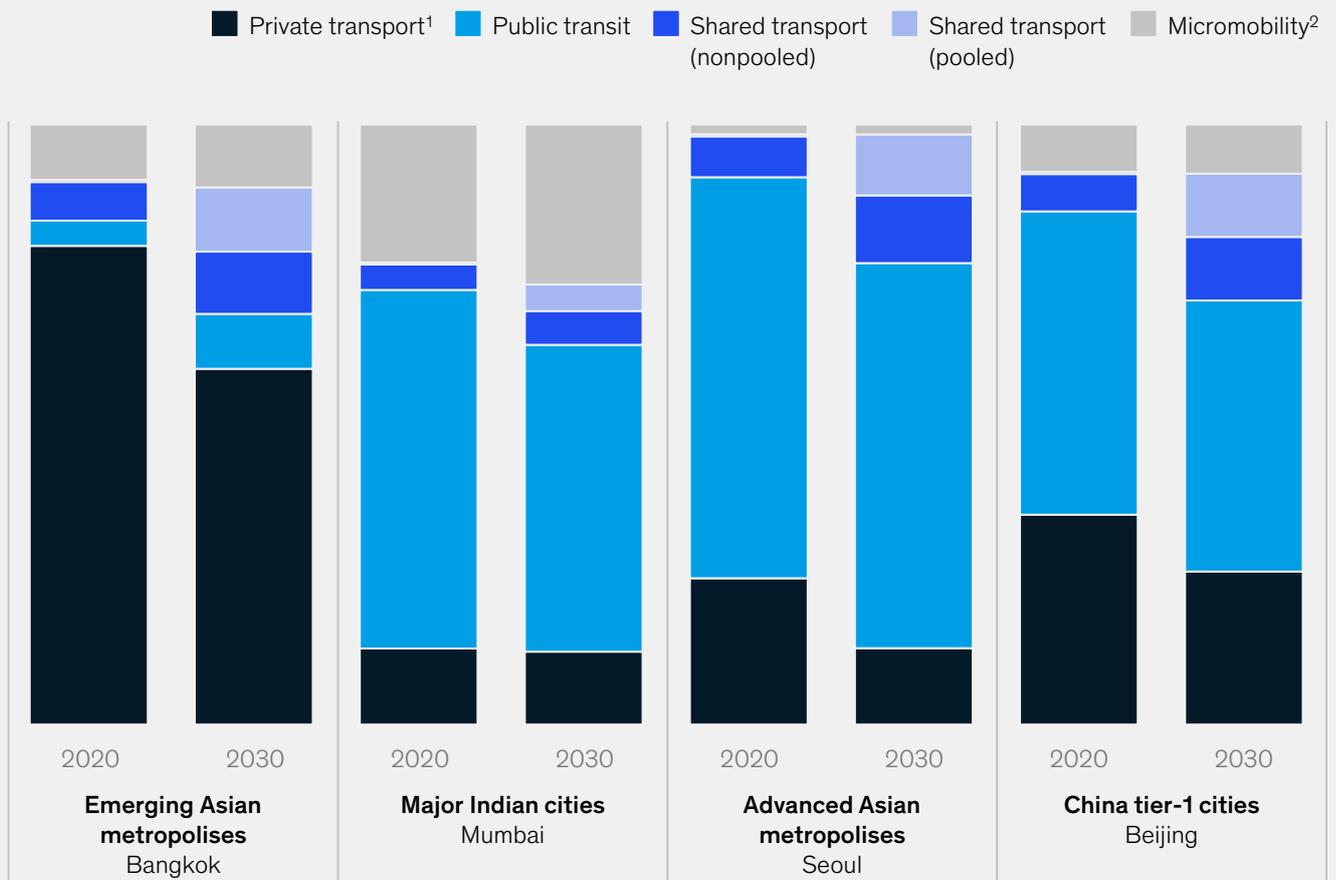
volumes of commuters rely on the multiple railway systems of the city for affordable transportation. It is notable that motorcycles, mopeds, scooters, and bicycles account for a significant portion of total passenger kilometers traveled in cities in India. Indeed, two-wheelers make up about 80 percent of all automotive sales in India, reflecting robust demand from passengers given affordability constraints, and from providers of last-mile delivery of food and groceries, as well as spreading e-commerce.<sup>1</sup>

<sup>1</sup> Society of Indian Automobile Manufacturers, [siam.in](http://siam.in).

Exhibit 29

### Significant variations are expected among Asia's cities in shifting transportation modes to 2030.

Mode share shifts for selected cities in Asia, % of passenger kilometers traveled, accelerated scenario



1. Includes private vehicles and motorcycles >125cc.

2. Includes private and shared mopeds, scooters <125cc, e-kickscooters, bicycles, and e-bicycles. Does not include 3-wheelers.

Note: Estimates are for an "accelerated scenario." The speed of transition may be slower and will depend on multiple factors, including the regulatory framework.

Source: McKinsey Center for Future Mobility, Mobility Market Model; McKinsey Global Institute analysis

To navigate this changing context, automotive companies need to consider which growth angles may matter in specific markets. For example, smaller households in some markets may accelerate the shift from car ownership to shared mobility solutions, while a rising number of women joining the workforce in some regions may accelerate demand for more than one vehicle per household in some families. Here we highlight three main shifts affecting consumption in the four-wheel automotive sector:

- **New forms of ownership are emerging in Asia’s automotive sector, leading to coexistence between new access models and ownership.** Online ride-hailing services, such as Didi, Grab, Gojek, and Ola, are estimated to have served more than 800 million users across Asia in 2020.<sup>135</sup> Ride hailing may be the best-known manifestation of the sharing economy in mobility, but it is only one of many models. Others include car sharing and subscription models, such as Carro and Kinto, as discussed in chapter 2. About 55 percent of Chinese consumers are open to using rental options for their cars.<sup>136</sup> As a result of these trends, value pools are shifting, but patterns are diverse within Asia (Exhibit 30).<sup>137</sup>

In China and Japan, McKinsey’s Center for Future Mobility estimates that value pools for private vehicle sales are likely to hit their peak over the next two decades.<sup>138</sup> In three different scenarios of technology adoption, private vehicle sales in Japan are expected

<sup>135</sup> Statista Mobility Market Outlook, 2020.

<sup>136</sup> *The race to win: How automakers can succeed in a post-pandemic China*, McKinsey & Company, August 13, 2021.

<sup>137</sup> China, India, Indonesia, and Japan were chosen for this analysis (Japan to represent Advanced Asia and Indonesia to represent Emerging Asia).

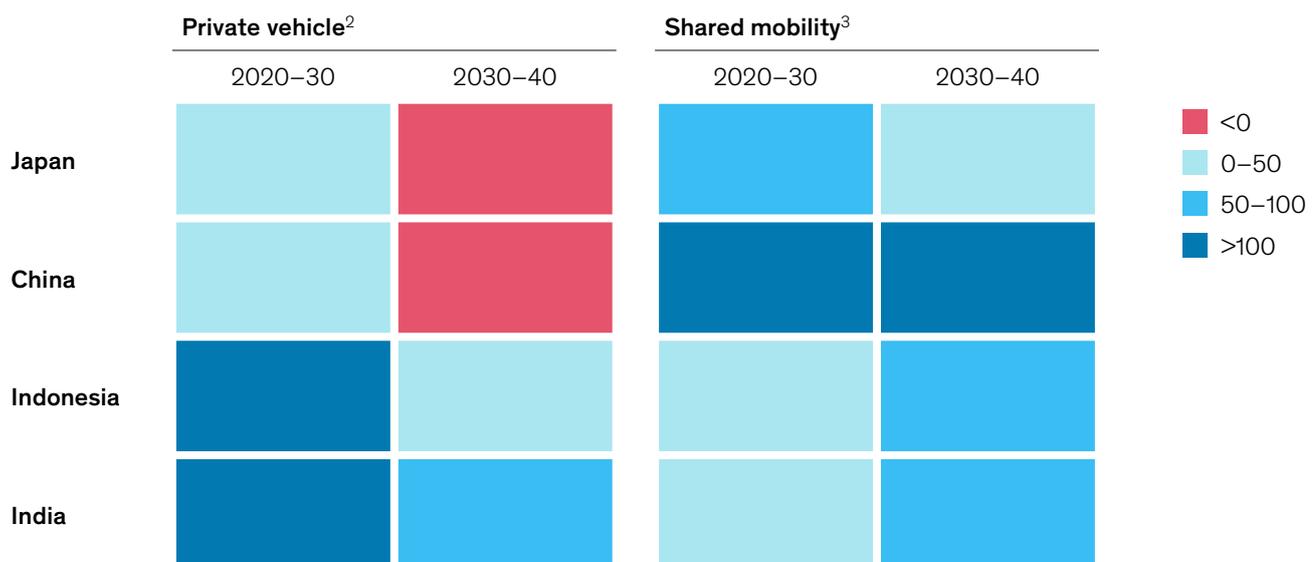
<sup>138</sup> McKinsey’s Center for Future Mobility models three scenarios for the evolution of mobility value pools depending on the speed of adoption of emerging mobility business models and technologies: a reference scenario (base case), delayed mobility transition, and accelerated mobility transition.

Exhibit 30

## The private vehicle value pool may hit an inflection point in China and Japan, but it continues to grow in India and Indonesia.

Reference scenario

10-year growth of value pool by mode, %<sup>1</sup>



1. Mode split includes all mode-related revenue from the full value chain, eg, vehicle sales, usage costs, and mobility services.

2. Includes private vehicles of up to 3.5 tons and fleets; excludes 2- and 3-wheelers, buses, and trucks.

3. Includes ride hailing, car sharing, rentals, taxis, shuttles, and robo-taxis.

Source: McKinsey Center for Future Mobility, Mobility Financials Model; McKinsey Global Institute analysis

to peak in this decade, whereas in China they are expected to peak in five to 15 years. In an accelerated mobility transition scenario, private vehicle sales are expected to peak in China and Japan as early as the first half of the decade. However, in a delayed mobility transition scenario, private vehicle sales could remain stronger for longer. This scenario assumes that no new regulations reduce congestion and emissions, autonomous vehicle technology will not be ready by 2030, and consumers show a strong preference for private vehicle ownership and have low eco-sensitivity. In such a scenario, the private vehicle share of total value pools in the industry may decline by as little as 5 percent. As private vehicle sales hit their peak, shared mobility solutions, including ride hailing, car sharing, car rental, taxis, shuttles, and robo-taxis, are expected to grow strongly under all scenarios in China and Japan. In the reference scenario, shared mobility is expected to reach a compound annual growth rate of 5 to 10 percent between 2020 and 2030 and reach 10 to 20 percent of total value pools.

For emerging economies with lower car ownership rates, such as India and Indonesia, conventional ownership is likely to continue to expand, coexisting with growing shared mobility solutions. Private vehicle sales value pools are expected to continue to grow, and could as much as double or even triple their current amount over the next decade. Shared mobility in these markets is likely to have a more prolonged takeoff, accelerating from 2030 onward.

Original equipment manufacturers (OEMs) may consider which markets they can continue to serve using a conventional sales approach and which ones may require a different revenue model, such as creating B2B partnerships with mobility providers or new revenue sources such as in-car sales.

- **The rise of digital natives, the big convergence, and a new channel mix could combine to radically reinvent how automotive companies engage their consumers.** Interactions between automotive companies and consumers are likely to be reshaped over the next decade. As digital natives continuously embrace digital ecosystems and new channels, the expectations of what a car can do are changing, and in an era of commoditized hardware, automotive players may consider how to revamp the customer experience radically. At the same time, the channel mix is shifting as consumers increasingly favor direct-to-consumer approaches and innovative ways of making contact, such as virtual showrooms and digital channels.<sup>139</sup> In India, 95 percent of consumers in a 2020 survey claimed to use online channels to research new cars, and 54 percent of consumers say that they would buy a car online if given the option.<sup>140</sup>

In order to design a seamless customer experience, creating interfaces with leading digital ecosystems will be crucial. Some pioneering Asian companies are leading the way on new ways of engaging with customers. One example is Shanghai-based auto manufacturer NIO, which designs and develops EVs. NIO actively engages customers through its app, its integration with WeChat, exclusive lifestyle showrooms called NIO houses that also function as community centers, and the company's virtual assistant NOMI. These channels give customers a wide range of digital touchpoints to buy NIO vehicles.<sup>141</sup> In India, Mercedes-Benz has launched a new direct-to-customer sales model as well as new customer-centric digital offerings such as personalized service experiences and WhatsApp as a communication platform for service updates.<sup>142</sup> In South Korea, Hyundai is providing the opportunity to test-drive the Sonata N Line virtually through a collaboration with Zepeto, a Metaverse platform.<sup>143</sup>

---

<sup>139</sup> Websites, online video platforms, and social media platforms increased the most in importance for consumers seeking information in 2020, compared with 2019. See *2021 McKinsey Automotive Consumer Insights*, McKinsey & Company.

<sup>140</sup> *Google Auto Gearshift India 2020*, Google India, [auto.economictimes.indiatimes.com](https://www.economictimes.indiatimes.com).

<sup>141</sup> Phate Zhang, "NIO says users have communicated with NOMI virtual assistant over 200 million times," *CNEVPOST*, May 17, 2021.

<sup>142</sup> Sumant Banerji, "Mercedes-Benz to launch direct-to-customer sales model in India," *BusinessToday.In*, June 2, 2021; and Raajan Joshi, "Mercedes-Benz India unveils new digital features to enhance customer service offerings," *NFA Post*, July 14, 2020.

<sup>143</sup> *Hyundai Motor Company provides Sonata N Line test drive experience on Metaverse platform "ZEPETO,"* [iconsumer.or.kr](https://www.consumer.or.kr) news, June 25, 2021.

Increasingly, vehicles may no longer just be ways to get from A to B, but connectivity will enable vehicles to be hubs for many aspects of consumers' lives, including entertainment and shopping. In China, 56 percent of consumers are willing to switch brands for improved connectivity, according to McKinsey's 2020 survey on autonomous, connected, electric vehicles.<sup>144</sup> In a McKinsey benchmarking study, Chinese battery-powered EVs (BEVs) rank highly compared with international OEMs on providing customer experience through advanced connectivity solutions, such as advanced human-machine interfaces and integrated apps through partnerships with local tech players such as Alibaba and Tencent.<sup>145</sup> This opens up new revenue streams and enables automotive companies to shift from one-time sales to ongoing revenue models and a proliferation of value-added services. Close to 70 percent of consumers prefer paying for autonomous driving after the initial purchase rather than it being included in the initial price; 60 percent of them favor pay-per-use or monthly subscription models as opposed to one-off payments.<sup>146</sup> McKinsey's Center for Future Mobility estimates that the total revenue pool for connectivity services across Asia in 2030 could range between \$80 billion and \$120 billion.<sup>147</sup>

- **The trend toward eco-responsibility is likely to propel EV sales, with Asian brands currently leading in Asia.** The mix of private vehicles operating over the next decade is likely to undergo a dramatic shift in Asia as consumer preferences toward more sustainable options grow and their choices are reinforced by regulatory change that supports demand for these options (Exhibit 31). Considering expected scenarios of

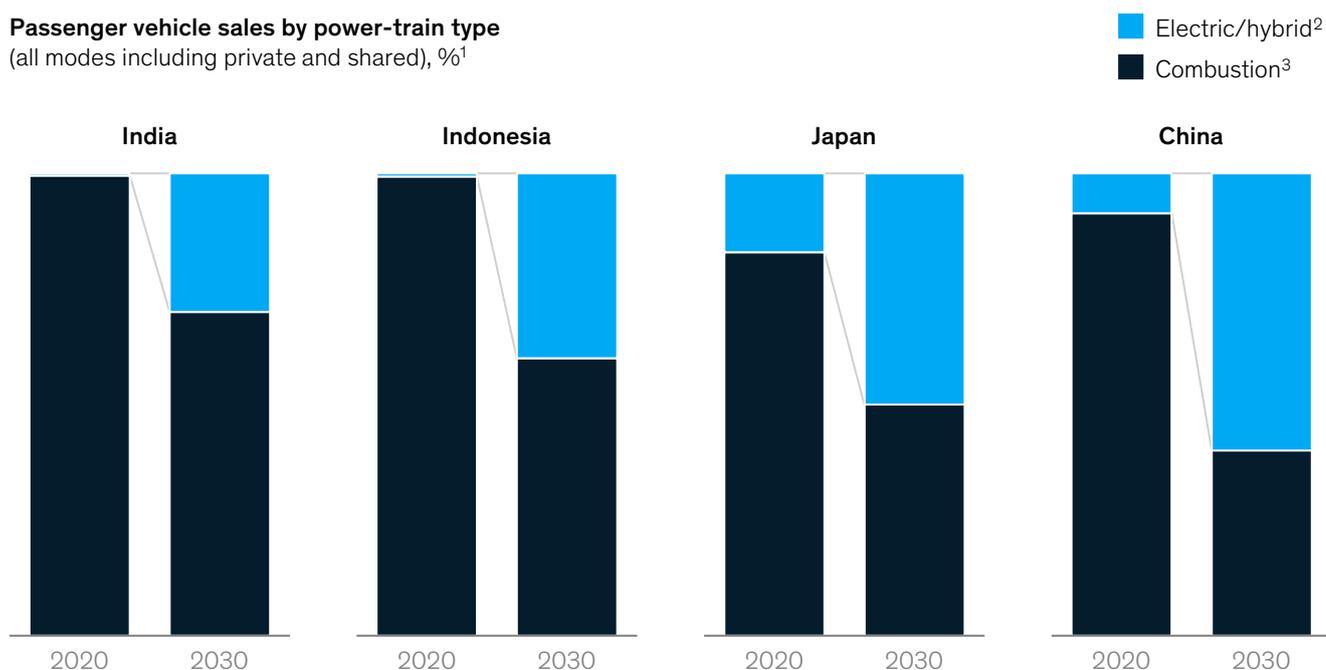
<sup>144</sup> Michele Bertoncello, Christopher Martens, Timo Möller, and Tobias Schneiderbauer, "Unlocking the full life-cycle value from connected-car data," February 2021, McKinsey.com.  
<sup>145</sup> Clemens Dabelstein, Philip Schäfer, Dennis Schwedhelm, Jingbo Wu, and Ting Wu, "Winning the Chinese BEV market: How leading international OEMs compete," May 2021, McKinsey.com.  
<sup>146</sup> *The race to win: How automakers can succeed in a post-pandemic China*, McKinsey & Company, August 2021.  
<sup>147</sup> Michele Bertoncello, Christopher Martens, Timo Möller, and Tobias Schneiderbauer, "Unlocking the full life-cycle value from connected-car data," February 2021, McKinsey.com.

Exhibit 31

## Vehicle sales are set to shift to electric and hybrid models by 2030.

Reference scenario

**Passenger vehicle sales by power-train type**  
 (all modes including private and shared), %<sup>1</sup>



1. Includes private vehicles of up to 3.5 tons and fleets; excludes 2- and 3-wheelers, buses, and trucks.  
 2. Includes battery, fuel cell, hybrid, and plug-in hybrid electric vehicles; excludes mild hybrids.  
 3. Includes internal combustion engine, compressed natural gas, liquefied natural gas, and mild hybrid electric vehicles.  
 Source: McKinsey Center for Future Mobility, Mobility Electrification Model; McKinsey Global Institute analysis

regulation, consumer preferences and technology evolution, 60 to 80 percent of vehicle sales in China are expected to be BEVs, fuel cell EVs, plug-in hybrid EVs, or hybrid EVs by 2030, while in Japan this number may be between 50 and 60 percent. In India and Indonesia, this share could reach 30 to 50 percent.<sup>148</sup>

Asian brands have led the charge in this segment. In China, the share of EV sales by local players tops 75 percent, with international players now attempting to penetrate the market.<sup>149</sup> In South Korea, Tesla has significant market share, but local players such as Hyundai and Kia have a high share of the rest of the market.<sup>150</sup> In addition to this focus on EVs, many automotive companies are also exploring alternatives that will help them decarbonize their broader supply chains by working in partnership with their suppliers and setting targets for a lower carbon footprint for their products.<sup>151</sup>

### **Between 40 and 65 percent of value may follow different consumption curves over the next decade**

These new opportunities for value creation will create a changing demand landscape, with new consumption curves coming to the forefront. Sales of ICE-powered vehicles across Asia are likely to continue to follow income-driven S-curves. In India and Indonesia, for instance, rising incomes may fuel a doubling or tripling in private conventional vehicle sales over the next decade. However, between 40 and 65 percent of value pools in the automotive sector may follow different consumption curves over the next decade.<sup>152</sup>

- **25–45 percent of automotive value pools may follow a breakaway curve and shift over time.** The coming of age of EVs is likely to lead to a new breakaway curve with a different shape from the conventional ICE-vehicle adoption curve. EV penetration is currently low across Asia; in China, EVs account for less than 2 percent of all vehicles.<sup>153</sup> Even in markets that are plateauing in penetration of all vehicles, EVs may therefore be a growing category for some time. The emerging EV curve is likely to be dynamic as supply-side cost innovation drives the consumption tipping point to the left. For example, Wuling's Hongguang Mini EV costs about \$5,000 and is among the cheapest models available in the market.<sup>154</sup> On the demand side, public policy and increased eco-consciousness are likely to fuel penetration of EVs, further shifting the consumption curve. A similar curve may emerge for autonomous vehicles, although that is expected to take longer to play out, extending beyond 2030.
- **15–25 percent of the automotive value pools are likely to be less correlated with income and may follow an access curve.** Shared mobility offers previously priced-out consumers the opportunity to access new mobility solutions, which is leading to a new access curve that is much less correlated with income than traditional private vehicle sales. Even markets where automotive penetration is relatively low, such as India and Southeast Asia, may offer large opportunities for companies engaged in offering shared mobility solutions, from ride-hailing players to OEMs that develop strong B2B offerings to serve shared mobility platforms. For example, Hyundai has partnered with Grab to accelerate the ride-hailing company's adoption of EVs in Southeast Asia, piloting the deployment of 200 Hyundai Kona EVs in Grab's fleet in Singapore.<sup>155</sup>

<sup>148</sup> Ranges refer to a base case scenario and an accelerated mobility transition scenario.

<sup>149</sup> First half of 2021, China new car insurance registration database.

<sup>150</sup> "Car of the year 2021: Hyundai Ioniq 5," *Auto Express*, July 7, 2021; and *Kia EV6 redefines boundaries of electric mobility with inspiring design, exhilarating performance and innovative space*, KIA, March 30, 2021, [press.kia.com](https://press.kia.com).

<sup>151</sup> Christian Hoffman, Michel Van Hoey, and Benedikt Zeumer, "Decarbonization challenge for steel," June 2020, McKinsey.com; and Ko Fujioka, "Toyota speeds up carbon-zero target for factories to 2035," *Nikkei Asia*, June 12, 2021.

<sup>152</sup> High-level estimates that take into account different scenarios and interdependencies of shared mobility and private vehicle ownership. Ranges for total of value pools following specific types of new consumption cannot be added directly, given interaction effects.

<sup>153</sup> "In 2020, the number of motor vehicles in the country will reach 372 million, and the number of motor vehicle drivers will reach 456 million," *People's Daily Online*, January 8, 2021, [xinhuanet.com](http://xinhuanet.com). Also see *Global EV outlook 2020: Entering the decade of electric drive?*, International Energy Agency, June 2020; and McKinsey Center for Future Mobility.

<sup>154</sup> Yilei Sun and Brenda Goh, "GM venture's mini car becomes China's most sold EV, surpassing Tesla's model 3," Reuters, September 15, 2020.

<sup>155</sup> *Hyundai Motor Group deepens partnership with Grab to accelerate EV adoption in Southeast Asia*, Hyundai, June 22, 2021.

## CPG: A new channel mix, demographic shifts, and rising eco-consciousness are changing the sector

New consumption patterns, particularly those evident in the ten shifts described in this research, are playing out in the CPG sector. They include the following:

- **New channels and the big convergence are reshaping how value flows through the value chain.** The conventional value chain flowing from CPG companies to wholesalers and distributors and finally to modern trade and traditional trade is being reshaped. The emergence of eB2B platforms replacing established flows, and the continued shift to digital channels, including e-commerce specialists and super apps as interfaces to the consumer, are carving out a whole new value chain. As a result of these changes, value is shifting among players (see Box 7, “A simulation of profit pool shifts in two categories”).
- **Demographics are seen causing major changes in the mix of consumption categories.** Companies chasing growth may consider how demographic changes could inform changes to their product portfolio. The rise of seniors may drive increased uptake in targeted categories such as enriched foods. The increased economic power of women is likely to propel categories such as personal care. Ira Concept, founded by female entrepreneurs, sells organic, plant-based sanitary pads and became one of the first subscription-based platforms for personal care in Thailand.<sup>156</sup> Some categories may also decline in some markets. With decreasing fertility rates and fewer children, many categories may experience headwinds in parts of Asia. Some CPG companies have dropped some categories ahead of this trend. For instance, Godrej Consumer and Hindustan Unilever Limited are divesting from the Indian baby diaper market.<sup>157</sup> At the same time, companies may find new success in categories of goods smaller households more frequently purchase, such as prepackaged food and pet food. Partner Pet, a Chinese startup founded in 2016 that produces high-end pet food, attracted venture capital investment from several well-known private equity firms, and turned profitable in 2018.<sup>158</sup> Shrinking household size is also likely to change consumers’ preferred packaging options—offerings of new, smaller formats have already emerged in Japan and may increase across Asia.
- **Eco-consciousness may drive new demand.** CPG companies have an opportunity to tap into rising preference for more sustainable products and the prospect that, as incomes continue to increase, they should become more appealing to more consumers. Some players are already active in this regard. For instance, leading milk producer Vietnam Vinamilk is investing in an eco-friendly dairy farm that does not use pesticides and chemical fertilizers, and uses biodegradable materials in its packaging. These efforts have helped the company become one of the top fast-moving consumer goods brands in Asia.<sup>159</sup>
- **Personalization—the segment of one—is likely to continue to cross digital and physical boundaries.** As increasing volumes of consumer data are generated, CPG companies need to develop their digital and analytics skills in order to ensure that they have access to the right data and then use those data to drive personalization of marketing, their products, and even product development. Under its brand name IOPE, Amorepacific launched a personalized 3-D hydrogel mask that fits each individual’s facial dimensions and skin conditions; the masks are made using a 3-D printer in the IOPE LAB in South Korea.<sup>160</sup>

<sup>156</sup> Jitsiree Thongnoi, “Women entrepreneurs break menstrual taboos in bid to end period poverty,” *South China Morning Post*, March 6, 2021.

<sup>157</sup> *Annual report 2017–2018*, Hindustan Unilever Limited, [hul.co.in](http://hul.co.in); Viveat Susan Pinto, “Why are major players not interested in selling baby diapers any longer?,” *Business Standard*, July 9, 2018.

<sup>158</sup> *Investment and financing: Pet food brand “Paternal” completed round A and round A+ billion-level financing, invested by Matrix Partners China*, SynTao Ventures, May 18, 2021, [www.shangdaovc.cn](http://www.shangdaovc.cn).

<sup>159</sup> *Asia Brand Footprint 2020*, Kantar, June 2020, [kantarworldpanel.com](http://kantarworldpanel.com).

<sup>160</sup> *Looking around IOPE Lab*, IOPE, [iope.com](http://iope.com).

## A simulation of profit pool shifts in two categories

To understand how a new channel mix may lead to shifts in profit pools across the CPG value chain in the next decade, we simulated two distinct categories in two different geographies, beer in Emerging Asia, and beauty and personal care in Advanced Asia (Exhibit 32).

Our simulation of the distribution of value pools across players indicates that the value pool for CPG brands could shift between a 5 percent loss and a 5 percent gain. If CPG players can capture the benefit from higher efficiency, largely from a lower cost-to-serve model that could result in higher margins of eB2B in the beer market, and direct-to-consumer (D2C) in the beauty market, the value pool could increase. However, this gain is not a certainty. In a scenario in which eB2B intermediaries experience greater margin pressure due to increased bargaining power, or where an e-commerce channel experiences declining margins arising from higher cost to serve and greater bargaining power, CPG players could lose a small share of their total value pools.

Conventional wholesalers and distributors could lose more than half their current value pools (one to five percentage points, from a starting point of less than 10 percent). This loss corresponds to a gain for emerging eB2B players. Given their lower margin structure, especially during the growth phase, this channel is likely to have only a small share of overall gross margin pools (less than 5 percent of the total). However, they could account for as much as 15 percent of the total share of distribution.

Traditional trade is likely to continue to lose share but become more resilient and modernized through eB2B. However, this outlook will vary by category and geography. In the case of personal care in Advanced Asia, traditional trade value pools may almost completely disappear. However, in Emerging Asia, a category such as beer could continue to account for more than one-third of total value pools. Finally, e-commerce is seen continuing to capture more share and is expected to almost triple its current value pools in some categories.

To position themselves for such disruptions in the channel mix, CPG companies may consider how to respond. They could opt to partner with emerging eB2B players. For instance, companies such as P&G and Nestle have partnered with Growsari, a local Filipino eB2B platform.<sup>1</sup> Some players have developed their own platforms. For example, Hindustan Unilever Limited launched an eB2B app, Shikhar, which today reaches over 500,000 retailers.<sup>2</sup> In categories where D2C may be economically viable, such as beauty and personal care, CPG brands may launch their own D2C efforts. This is what China beauty brand Perfect Diary has done. In 2020, revenue of its parent company Yatsen Holdings totaled 5.2 billion renminbi, up 73 percent from a year earlier, and Perfect Diary became the top color cosmetics company in China. D2C was responsible for 25 percent of revenue. The company's D2C effort has been propelled by heavy investment in social marketing. The brand has as many as 6,000 key opinion leaders and key opinion consumers under management, and more than 10,000 brand-owned WeChat groups that enable the company to communicate directly with consumers.<sup>3</sup>

<sup>1</sup> Catherine Shu, *GrowSari, a B2B platform for small stores in the Philippines, adds investors like Temasek's Pavilion Capital and Tencent*, TechCrunch, June 21, 2021.

<sup>2</sup> Annual report 2020–2021, Hindustan Unilever Limited, [hul.co.in](http://hul.co.in).

<sup>3</sup> Yatsen Holdings Limited Annual report 2020; Satiama/Huazheng, "Perfect Diary and the rise of China's D2C unicorns," Rethink Retail, January 5, 2021.

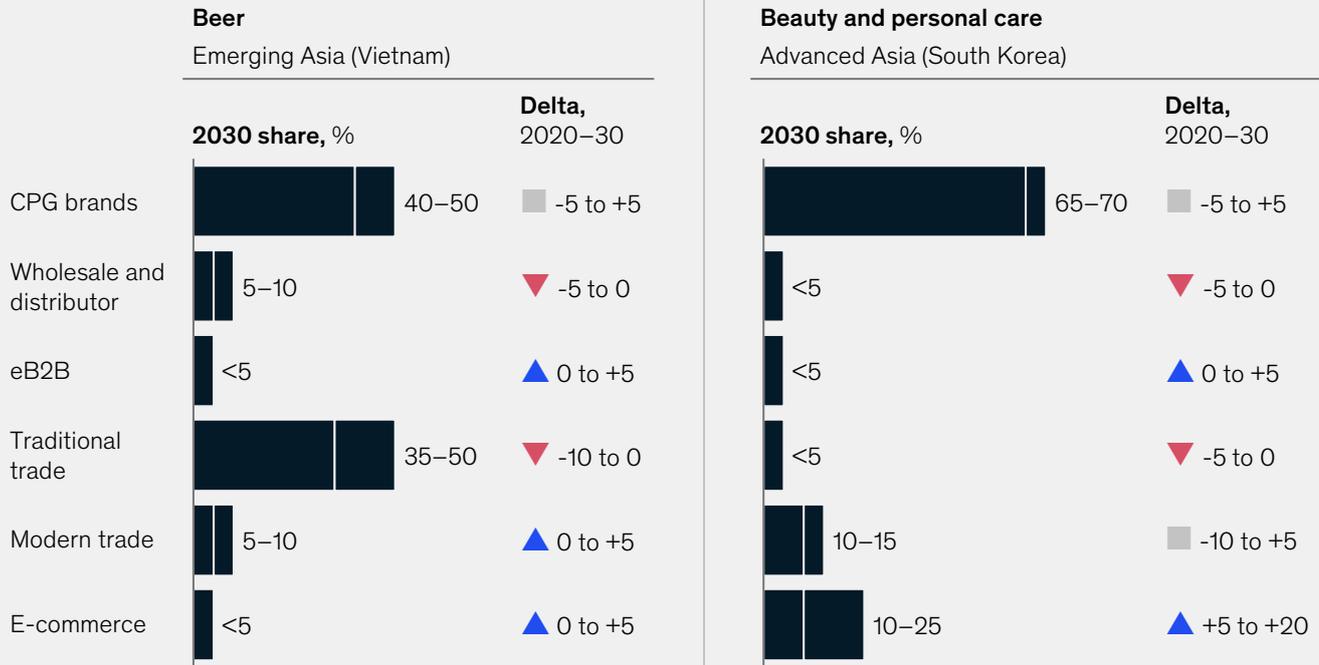
Exhibit 32

**Value pools are shifting to different players in the CPG value chain.**

**Simulation**

**Value pool shift, gross margin pool distribution, %**

▼ Negative    ■ Neutral    ▲ Positive



Note: Estimates of the value pool shifts are the result of a simulation based on a specific set of conditions and assumptions. They will furthermore be influenced by the behavior of different players in each industry. The simulation should therefore not be taken as a specific forecast for the broader beer, or beauty and personal care industry.

Source: McKinsey Global Institute analysis

### **Between 20 and 40 percent of CPG value pools could follow different consumption curves over the next decade**

As companies explore their new growth angles, they need to consider how demand could play out. Income-driven S-curves are likely to remain a valuable tool for understanding consumption behavior for 60 to 80 percent of demand. Rising incomes will ensure that many Asian economies advance along S-curves as consumption rises. Take premium cosmetics as an example; their share of total cosmetic sales is ten times higher in higher-income economies, including Australia and Singapore, than in lower-income countries such as India and Pakistan.<sup>161</sup>

Nevertheless, between 20 and 40 percent of CPG demand could follow different consumption curves over the next decade. Companies catering to these changes may unlock new value for consumers by developing products to meet new needs (including eco-consciousness) or by reaching consumers through new channels.

- **10 to 25 percent of CPG value pools may follow a breakaway curve.** The rise of eco-conscious consumption may provide fresh growth potential for categories whose penetration is already high. To capture that potential, CPG companies need to home in on markets with the right balance between price premiums and willingness to pay. They need to innovate and to have a detailed understanding of specific environmental concerns motivating consumers; in Indonesia, for instance, sustainable packaging is emerging as a particularly strong concern.<sup>162</sup>
- **10 to 15 percent of CPG value pools are likely to follow new access curves.** The new channel mix in Asia, reflecting eB2B disruption combined with further growth of e-commerce, is set to give many more consumers at all income levels access to new products. Categories that were too costly to deliver to consumers through conventional distribution and traditional trade could increase their penetration in areas where consumers have unserved needs. eB2B platforms can thus function as a complementary channel to drive incremental sales in the “long tail” outlets that fast-moving consumer goods companies are trying to reach.

### **Financial services: New ways to reach and serve customers are spreading as a result of consumption shifts**

In financial services, new disruption may provide new growth opportunities for companies and potentially increase customer value by lowering barriers to accessing new products and expanding financial inclusion. Public policy may play a significant role. In India, for instance, MGI estimates that open financial data could add as much as 4 to 5 percent to GDP by 2030, with consumers standing to gain the most from easier access to financial services.<sup>163</sup>

For companies seeking growth, the new angles discussed in chapter 2 may offer the financial services industry a plethora of opportunities. In the case of banking, as much as 25 percent of demand may shift to new consumption curves as consumers find new ways of accessing financial services. The following consumer shifts may prove to be particularly significant:

- **The big convergence could reshape the role of financial services players.** As digital ecosystems and super apps mediate relationships with an increasing number of customers, financial services players may consider how to define effective partnerships with those that orchestrate ecosystems. Fast-growing embedded finance is an example of how financial services players can take part in the new digital ecosystem. From 2020 to 2025, embedded finance—banking-like services offered by nonbanks—could grow by as much as 60 percent a year in products ranging from embedded payments to insurance

---

<sup>161</sup> Euromonitor Passport.

<sup>162</sup> David Feber, Anna Granskog, Oskar Lingqvist, and Daniel Nordigården, “Sustainability in packaging: Consumer views in emerging Asia,” March 2021, McKinsey.com.

<sup>163</sup> *Financial data unbound: The value of open data for individuals and institutions*, McKinsey Global Institute, June 2021.

and lending.<sup>164</sup> Banks may consider embedded finance plays and banking-as-a-service platforms in order to become effective and innovative participants in ecosystems; slower respondents may be disintermediated. ICICI Bank in India, for instance, embedded basic banking services on WhatsApp and scaled up to one million users in only three months from its launch.<sup>165</sup> Banks and insurance companies with sufficient appetite and capabilities may create and orchestrate their own ecosystems, too. State Bank of India built YONO, an app with more than 100 partner-provided products and its own financial products, which dramatically increases customer engagement. DBS in Singapore is another example of pursuing ecosystem-linked opportunities. The bank runs marketplaces in travel, mobility, and property, and an application planning interface (API) developer platform.<sup>166</sup>

- **New notions of ownership may require financial services players to further review their product mix.** As Asian consumers consider new forms of ownership, some conventional financial products such as homeowner's insurance and car loans may start to become less relevant. In response, players may need to innovate to create new sources of growth, including, for instance, insurance products targeted at the sharing economy. In some cases, players may find opportunities by participating in other ecosystems. In Australia, for instance, ShareCover, which is part of Australia's largest general insurance group, IAG, offers home insurance for hosts renting out their property on platforms like Airbnb and car insurance for ride-share drivers, who typically have not been covered by personal home insurance or car insurance.<sup>167</sup>
- **The new channel mix and the segment of one will likely require financial services players to change how they interact with customers.** Consumers' expectations of financial services players are changing as uptake of digital channels increases, and expectations for customer experience have risen because of technologies raising the bar by offering easy-to-use and personalized services. Although consumer adoption of digital channels was initially strongest for transactional services, during the pandemic even conventionally "high touch" products such as mortgages have started to migrate to online channels. Singapore's Overseas-Chinese Banking Corporation launched a 60-minute mortgage approval service for Singaporeans in May 2020 by leveraging automation and straight-through processing of mortgages originated online. In 2020, 30 percent of loans were applied for and executed through this platform.<sup>168</sup> Personalization of both marketing communications and actual goods and services is becoming an increasingly important competitive differentiator. South Korea considered launching a government-led MyData project in 2021 to enable licensed service providers, including both incumbent and fintech players, to collect and analyze personal data scattered across the financial sector, subject to consumers' consent.<sup>169</sup> Such an approach can enable further personalization, creating opportunities for players with superior analytics capabilities.

---

<sup>164</sup> Zac Townsend, *What the embedded-finance and banking-as-a-service trends mean for financial services*, March 2021, McKinsey.com; and Ron Shevlin, "Uber's departure from financial services: A speed bump on the path to embedded finance," *Forbes*, August 3, 2020.

<sup>165</sup> *ICICI Bank crosses milestone of 1 million users on WhatsApp banking platform*, ICICI Bank, July 7, 2020.

<sup>166</sup> DBS Marketplace, [dbs.com.sg/personal/marketplace](https://dbs.com.sg/personal/marketplace); and *Reimagining experiences*, DBS Developers, [dbs.com](https://dbs.com).

<sup>167</sup> ShareCover, [sharecover.com](https://sharecover.com).

<sup>168</sup> *Singapore's OCBC Bank approves mortgages in 60 minutes using FICO technology*, FICO, February 8, 2021.

<sup>169</sup> Jung Min-yung, "S. Korea delays launch of comprehensive data service," *Korea Herald*, July 8, 2021.

— **Large demographic shifts are creating new opportunities to innovate products.**

The following three demographic shifts appear particularly promising for the financial services sector:

- **Women's economic empowerment.** There are still significant gender gaps in Asia in access to financial services. However, many players have developed products tailored for women. In the Philippines, Insular Life achieved a 57 percent increase in female policyholders from 2017 to 2020. In 2019, the company launched a program called InLife Sheroes in collaboration with the Women Entrepreneurs Finance Initiative and the International Finance Corporation to provide the relatively untapped women's market with lifetime risk mitigation solutions and inform women about financial management, health, and well-being.<sup>170</sup>
- **Aging.** Financial institutions have conventionally had close relationships with seniors, but many players are exploring ways to expand their offerings to this demographic. For example, MetLife in Japan provides value-added services such as free reservation services for medical checkups and consulting services for cancer treatment.<sup>171</sup> In China, Taikang Life Insurance runs a resort-like retirement home exclusively for its life insurance policyholders; the home has a hospital, places of worship, cinema, gym, and buffet.<sup>172</sup>
- **Digital natives.** Younger generations have reshaped their relationship with financial services players. They are more likely to explore alternative financial services. In China, for instance, the share of consumers aged 21 to 24 who hold credit cards is more than 20 percentage points lower than that of the older generation.<sup>173</sup> Opportunities to serve digital natives include point-of-sale financing with flexible maturity reflecting the fact that this cohort tends to take on more debt to finance consumption than others. The share of buy-now-pay-later transactions in Asia doubled from 2019 to 2020, according to WorldPay research.<sup>174</sup> In Australia alone, buy-now-pay-later services are expected to grow by more than 30 percent per year over the next three years.<sup>175</sup> Local players such as Afterpay and Zip currently have the largest market share, but global players such as PayPal are competing for the Australian market.<sup>176</sup> Wealth management is another area in which financial services players can reshape their relationship with digital natives. The number of people using robo-advisory services could grow from around 110 million in 2019 to over 400 million in 2024. In China, US-based Vanguard and Ant Group formed a joint venture to offer investment advisory services. In 2020, they launched BangNiTou, a robo-adviser service with a deliberately low minimum investment requirement of 800 renminbi (around \$120 in August 2021) in an effort to democratize the availability of high-quality financial advice, which previously had been accessible to only a small number of wealthy investors.<sup>177</sup> Within a year of its launch, the service had acquired one million users, with half of them aged below 40.<sup>178</sup>

Financial services players are responding to this changing consumer landscape by innovating in product areas ranging from payments to wealth to financing (Exhibit 33).

---

<sup>170</sup> *Insular Life, Philippines—The case for insuring women for a better tomorrow*, International Finance Corporation, [www.ifc.org](http://www.ifc.org).

<sup>171</sup> *Health-related value-added services for products to be significantly expanded for policyholders*, MetLife, October 16, 2019, [metlife.co.jp](http://metlife.co.jp).

<sup>172</sup> Chuin-Wei Yap, "China's insurers try novel approach to elderly care: Building retirement homes," *Wall Street Journal*, February 14, 2018.

<sup>173</sup> *Consumer finance whitepaper*, McKinsey China, June 2021.

<sup>174</sup> *The global payments report: Rebuilding payments for a smarter world*, FIS and Worldpay from FIS, 2021.

<sup>175</sup> *Ibid.*

<sup>176</sup> Sarah Sharples, "PayPal takes on Afterpay with 'pay in 4' option," [news.com.au](http://news.com.au).

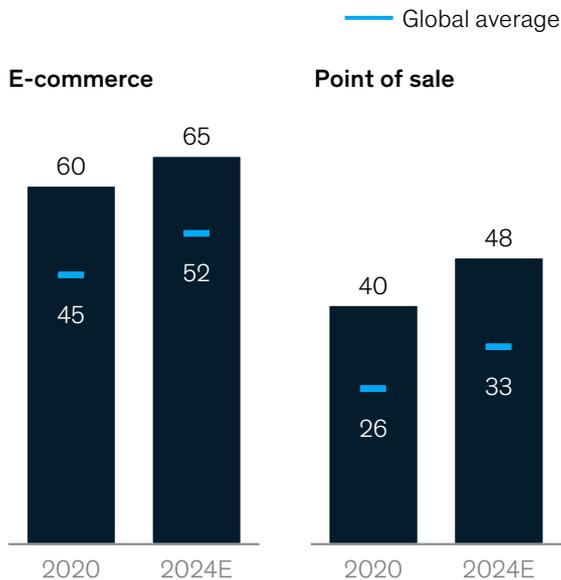
<sup>177</sup> Chris Flood, "Vanguard venture with Ant Group lures 200,000 Chinese clients," *Financial Times*, July 19, 2020.

<sup>178</sup> Lulu Yilun Chen, "Ant, Vanguard-backed robo adviser hits 1 million users in China," *Bloomberg*, March 18, 2021.

## New growth angles are changing the Asian financial sector in areas like payments, wealth management, and financing.

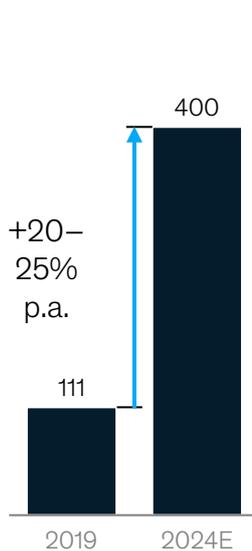
### Consumers are changing the way they pay ...

Digital and mobile wallets share of total payments, Asia, %<sup>1</sup>



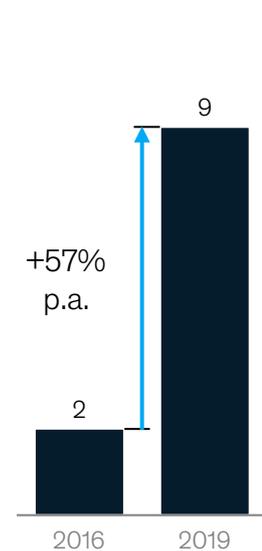
### ... build wealth ...

Asia robo-advisory assets under management, \$ billion



### ... and finance purchases

Australia buy-now-pay-later payments, A\$ billion<sup>2</sup>



1. Digital and mobile wallets include different types of electronic payment mechanisms through a computer or smartphone, which do not rely on a physical debit or credit card.

2. Selected providers as reported by Reserve Bank of Australia: Afterpay, FlexiGroup, Openpay, Zip Co.

Note: Figures may not sum to 100% because of rounding.

Source: Worldpay Global Payments Report, FIS 2021; Reserve Bank of Australia; Statista; McKinsey Global Institute analysis

### Between 15 and 25 percent of value pools in banking could follow different consumption curves over the next decade

The majority of the largest banking value pools, including mortgages and credit cards, are likely to continue to follow income-driven S-curves despite disruption introduced by fintech and new technology players. Nevertheless, innovation in other products such as payments, consumer lending, and wealth management may generate new opportunities to create consumer value through new forms of access.

- **Five to 10 percent of value may follow a new access curve.** The emergence of digital wallets is helping to increase financial inclusion at all income levels. While traditional accounts follow an income-driven S-curve, the penetration of digital wallets is much less driven by income. In China, eight out of every ten smartphone users have digital wallets. Alipay and Tenpay, which emerged from Alibaba and Tencent, together account for 35 percent of the value of C2B payments in China. There are clearly significant opportunities to serve classically underbanked consumers, offering them new financial products as they access financial services. In Cambodia, the number of digital wallets doubled in 2020 to almost ten million accounts.<sup>179</sup>
- **Up to 15 percent of value may follow a shifting S-curve.** Digital innovation in consumer lending and wealth management is democratizing access to these financial products, decreasing the cost of intermediation and minimum amounts to borrow or to invest. In India, HDFC bank has broadened services for small farmers with its “Milk-to-Money” program, which has digitized payments to more than 450,000 dairy farmers, enabling them to create credit histories that can mean that they can access lending more easily in the future. HDFC bank also offers wealth-management services, and this has been effective in attracting first-time investors.

<sup>179</sup> Shaun Turton and Bopha Phorn, “Cambodia’s COVID lockdown put delivery drivers on the front line,” *Nikkei Asia*, May 4, 2021.

## Residential real estate: Disruption is coming from demographic shifts, changing ownership, new channels, and digital ecosystems

Players across the value chain in the residential real estate industry can take advantage of shifts in sources and patterns of consumption to create considerable value for consumers and the cities in which they live so long as they adapt and innovate. As different parts of Asia move through different stages of the real estate development cycle, players in the sector will need a deeper understanding of the Asian consumer in order to find pockets of growth. Among the key changes to be expected by the industry are rising demand for smaller housing units and rental opportunities, and a greater role for property technology (proptech) (Exhibit 34).

Several of the ten consumer shifts explored in chapter 2 may influence the shape of this sector in the years to come.

- **Demographic and societal shifts are changing the nature of housing demand.** First, as urbanization continues, overall demand for housing in cities is rising, especially in large cities. Second, as household sizes shrink and marriages and births are increasingly delayed, housing stock is likely to adjust, shifting toward smaller formats such as studio and one-bedroom apartments. This has already happened in Japan; over the past 30 years, the average number of rooms per dwelling has decreased by 9 percent. In this same period, the average household size has decreased by 24 percent, suggesting that further downward pressure on the size of homes is possible.<sup>180</sup> In Tokyo, new apartments of less than 80 square meters accounted for 89 percent of new supply in 2019.<sup>181</sup> While the number of single households is rising, multigenerational living (in which two or even three generations live together) is likely to continue to be a prominent feature in some parts

<sup>180</sup> Statistics Bureau of Japan.

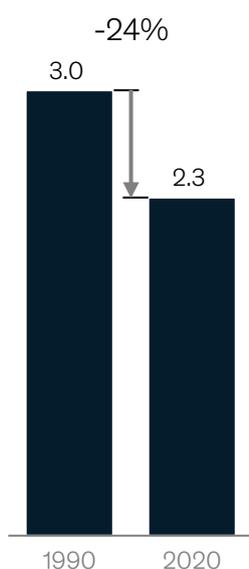
<sup>181</sup> *Apartments in Tokyo continue to shrink in size*, Japan Property Central, February 2020.

Exhibit 34

### Demand for smaller properties, rental opportunities, and property technology is set to grow.

#### Housing demand for smaller formats in Japan

Average household size, number of people

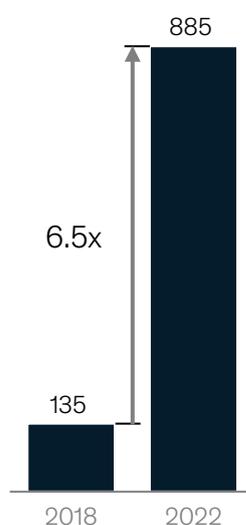


Average dwelling size, number of rooms



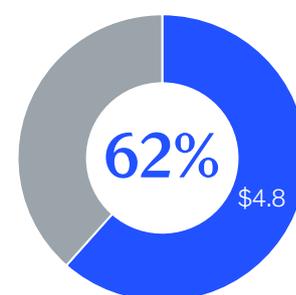
#### Rental market

Stock of single-owned rental housing in 6 major Chinese cities, thousand units<sup>1</sup>



#### Growing property technology (proptech) market

Asia-Pacific share of global proptech investment, 2013–17, 100% = \$7.8 trillion



1. Beijing, Chengdu, Guangzhou, Hangzhou, Shanghai, and Shenzhen.

Note: Figures may not sum to 100% because of rounding.

Source: Jones Lang LaSalle; Statistics Bureau of Japan; McKinsey Global Institute analysis

of Asia, including, for instance, India and Malaysia, where the share of multigenerational households tops 30 percent.<sup>182</sup> Finally, as Asian population pyramids skew toward the older generation, housing supply is expected to adapt to the changing life stages of the consumer. For example, growth in the senior housing segment is expected. As cultural norms change and children in some parts of Asia may no longer be routinely expected to take care of their parents, the luxury retirement living market will likely expand, as it has in Australia and New Zealand.

- **In major cities in Asia, a shift is emerging to rental and other housing models.** Buying a home is becoming increasingly unaffordable to many consumers in large cities in Asia. The house price-to-income ratio is 45 in Hong Kong, 37 in Manila, 33 in Mumbai, and 22 in Jakarta, compared with 13 in London and nine in New York.<sup>183</sup> Affordability pressures combined with greater geographical mobility and different attitudes toward ownership are likely to lead to a bigger rental market. Research conducted by JLL on rental housing markets in six major Chinese cities found that single-owned rental housing could increase from 135,000 units in 2018 to 885,000 units in 2022.<sup>184</sup> The government of China is making rental housing a priority and offering financial support and tax incentives to encourage it. In Shanghai, one estimate says more than 60 percent of new builds will be rental housing in the five years from 2017.<sup>185</sup> In Beijing, the share is estimated at 30 percent.<sup>186</sup>

In addition to rentals, other models such as shared housing and co-living are emerging. In South Korea, shared housing is increasing in popularity due to the increasing number of single-person households, many of which are not able to afford good-quality homes.<sup>187</sup> Co-living startups such as Cove in Singapore, Zolo and Stanza Living in India, and CoHive in Indonesia fill a housing demand gap for short-term accommodation as well as providing a community for residents. Prior to the COVID-19 pandemic, Asia experienced a boom in co-living. Total secured funding for co-living developments increased from \$130 million to almost \$4 billion from 2017 to 2019, the majority of it in China, India, and Southeast Asia.<sup>188</sup> As the pandemic subsides, the future of co-living will depend on the tension between the desire for home ownership and the desire for community and flexible living.

- **New channels and the big convergence are likely to change the consumer discovery and engagement process.** Online is becoming a more prevalent avenue for buyers or renters to find a home. As property markets mature and shift away from informal person-to-person transactions, digital intermediaries are likely to have opportunities to improve the trust and efficiency of transactions by applying online-to-offline models. Real estate agencies, financial brokers, and other intermediaries are at risk of being disrupted by proptech platforms, such as Beike in China, PropertyGuru in Singapore, and 99Acres in India. Some startups in Asia have the ability to create 3-D digital twins and enable consumers to see 3-D virtual tours of properties.

Real estate players are increasingly moving beyond their core job of helping people to buy, sell, or rent properties tools to help consumers in their “living journey,” from maintenance to furnishings and fit-outs. For example, Beike in China is not only a real estate transaction platform but also offers an app that enables users to find home furnishing services and check the progress of home improvements in real time.<sup>189</sup> As digital channels and ecosystems spread and become even more integral to consumers, there is a significant opportunity for real estate players to shift from a one-off transaction model to data-driven customer lifetime value management.

---

<sup>182</sup> The DHA Program, Demographic and Health Surveys, USAID, [dhsprogram.com](https://dhsprogram.com).

<sup>183</sup> 2021 Mid-year Property Prices Index, Numbeo, [numbeo.com](https://numbeo.com). House price to income is the ratio of median apartment price to median family disposable income. The median apartment size is 90 square meters. Net disposable family income is defined as 1.5 times the average after-tax net salary per person.

<sup>184</sup> *The rise of China's rental housing market*, JLL, 2018.

<sup>185</sup> Shanghai Urban Residential Housing Development Plan for the 13th 5-year Period, [shanghai.gov.cn](http://shanghai.gov.cn).

<sup>186</sup> Beijing General Urban Plan (2016–2035), [lpcdia.com](https://lpcdia.com).

<sup>187</sup> *Future housing: The future of single-person households is in share houses*, ZERO1NE, July 2020.

<sup>188</sup> *The Global Coliving Report 2020*, The Housemonk, [thehousemonk.com](https://thehousemonk.com).

<sup>189</sup> Beike, [bj.home.ke.com](https://bj.home.ke.com).

Proptech ecosystems are likely to continue to grow as players in adjacent industries find ways to capture part of the housing value pool. One Mount Group, an ecosystem player in Vietnam that operates in fintech and e-commerce, has developed OneHousing, a platform for real estate transactions. These ecosystems can use data to generate consumer insights and provide a better customer experience.

In the case of residential real estate, consumption is not usually evaluated using income-driven S-curves, and we have not attempted to gauge how much value might shift to new curves as we do for other sectors discussed in this chapter (see Box 8, “Consumption in residential real estate”).

## Box 8

### Consumption in residential real estate

Multiple local factors beyond income affect home ownership, including culture, taxation, government policy, the availability of funding, and alternative investment assets. Some high-income countries have low rates of home ownership, and some low-income countries have high levels. Higher incomes are correlated with increased ability to own a primary residence (and subsequent investment properties) but also with increased sophistication of rental markets and increased urban density. Rental penetration tends to be higher in major cities with higher incomes, and that relationship can differ among cities within a country. Total expenditure on housing tends to exhibit a positive correlation with income, but there is no clear plateau. Because of these complexities, we have not quantified shares of demand that could move from income-driven S-curves to new consumption curves. However, the following four potential opportunities in residential real estate models may create new relationships

between housing consumption and income levels:

**Retirement living and elderly care.** As Asia ages and incomes rise, demand for this model is likely to increase. The nature of this shift has some of the characteristics of a breakaway curve. Currently, penetration rates are low in most of Asia, with the exception of Advanced Asia. However, penetration rates may increase in China and Emerging Asia, where the proportion of seniors is projected to increase to 25 and 15 percent, respectively.

**Alternative housing models.** The emergence of alternative models such as shared living and co-living may, in broad terms, follow a consumption curve that is less correlated with income and that gives consumers more access to better-quality homes than they otherwise would have.

**Modular construction.** Also known as prefabricated construction, modular construction involves producing standardized components of a structure

in an off-site factory and assembling on-site—an example of cost innovation. Modular construction has relatively low penetration in Asia other than in Japan, where it accounts for 15 percent of housing and is regarded as being of high quality, particularly with respect to earthquake resistance.<sup>1</sup> Modular construction can cut the schedule of a build by 20 to 50 percent and can save 20 percent on the cost of traditional construction; this could potentially shift the housing consumption curve to the left and increase consumption.

**Innovative financing models.** Proptech may give consumers greater ability to finance real estate investments, effectively lowering the barrier to real estate as an asset class. One example is fractional ownership, which allows individuals to own part of a property. Another key financing model is peer-to-peer lending, which has typically been used for smaller loans but is now gaining some traction in home loans.

<sup>1</sup> *Modular construction: From projects to products*, June 2019, McKinsey.com.

With considerable shifts in revenue to new consumption curves as Asia’s consumer markets fragment and diversify, the question is how companies serving these markets or aspiring to enter them should consider adjusting their thinking and strategy. In the final chapter, we share some brief thoughts on the implications for companies.

## 4. Time to redraw Asia's consumer map

The Asian consumer landscape is being reshaped. Rising incomes, diversifying new sources of growth, and a new consumption paradigm require companies to prepare for the next decade of competition. Now is the time to redraw the map of consumption growth in Asia in order to capture new and evolving sources of growth, and then to use enhanced intelligence about shifts in Asia's consumer markets to make effective decisions on a range of corporate activity, from resource allocation to what kind of ecosystem to operate in. In this chapter, we look at how companies need to adjust their thinking about Asia's consumer markets in order to map out the most promising growth prospects, and at a refreshed operating model that can respond effectively to diversification of markets and dynamic change—one that is both agile and open.

### Companies may need to redraw their map of consumption growth in Asia, looking at new angles and consumption curves

Each company has a map of growth, which can all too easily become outdated without a concerted effort to understand and track dynamically changing markets. Companies may need to rethink how demand for their products and services is likely to evolve as new consumers come to the fore, new growth angles open up, and demand shifts to new consumption curves. Specific areas include the following:

- **Find new growth angles.** Most companies can start with a simple question: “What will be the primary angles driving the growth of my business over the next decade?” Given that urbanization and rising incomes may no longer be sufficient to understand consumption growth, companies may look carefully at which of the ten growth angles are relevant to their businesses. Of course, companies will be at different stages of maturity in their Asian presence, and finding the right growth approach is not so simple. For some, geographic expansion may prove to be the most relevant path forward, while for others the ten consumption shifts discussed in chapter 2 may be the best way to identify opportunities that are likely to be the most relevant for each business unit and in which geographies. Based on this understanding, they can then orient strategic planning to capture the full potential of these growth angles. For instance, a CPG player may decide to focus on chasing growth by adjusting to local tastes or by embracing the big convergence and a new channel mix. Consider L'Oréal as an example. The company established the Shu Uemura brand for the Japanese market and released affordable versions of products such as shampoo sachets and mini lipsticks in India. To make the most of the big convergence and a new channel mix, L'Oréal brand Maybelline has developed a loyalty program through a WeChat mini program, integrating points earned through both offline purchase and its Tmall D2C store.

In the automotive sector, players may capitalize on the big convergence by investing in connectivity services, in-car entertainment, and interfaces with local ecosystems and super apps. NIO of China is just one example of a company that is tapping into multiple new growth angles. It is catering to digital natives' expectations by developing virtual assistants and BEVs and by optimizing their channel mix through the creation of direct-to-consumer approaches and virtual showrooms, as discussed in chapter 3.

- **Understand the new consumption curves that may play out in each sector.** Having defined their primary growth angles, companies need to consider new consumption categories that may emerge and how new demand may be unlocked by innovation in business models or product development. Companies that continue to take a traditional income-driven S-curve view of demand may miss out as faster competitors move to capture market share with innovative models. In the automotive sector, Chinese players account for more than three-quarters of the EV market, partly because they moved quickly to introduce BEVs adjusted to local market taste and willingness to pay.<sup>190</sup> They recognized that a new breakaway curve was emerging and positioned themselves accordingly. In financial services, players may consider how new access curves of financial inclusion may create opportunities to meet the needs of traditionally underserved segments of the population, as discussed in chapter 3. Previously unbanked customers may leapfrog directly to digital wallets, and players may use this as a launching pad to expand and offer other products. Many fintechs have acted to capture the potential of this new access curve. Paytm already serves many new customers with digital wallets, and it is now expanding into other services such as deposits, micro-investment, digital loans, and insurance.<sup>191</sup> In the consumer electronics industry, more companies may find ways to continue to innovate on cost in order to unlock penetration in emerging markets, as Oppo, Vivo, and Xiaomi have done with smartphones (see chapter 3). Players may even be affected by transformations in consumption curves of other sectors. For example, the consumer electronics and appliances industry is experiencing the emergence of a breakaway curve for smart appliances. Companies in other sectors, such as food delivery and grocery players, may recognize opportunities to partner with companies producing new smart fridges that alert customers when they are running low on particular items.<sup>192</sup>
- **Radically reimagine the future of consumption.** It is increasingly hard to predict the future merely as an extension of past trends. To push their thinking, companies may need to consider not only probable but possible futures, and include new approaches in their forecasting process. To do so, they could consider revamping their usual long-term planning processes and blend elements of design, broad-based signal scanning, and analytics. Global companies such as Gucci and Nike are partnering with players such as South Korea's Naver Corporation, parent company of the Metaverse platform Zepeto, the largest such platform in Asia.<sup>193</sup> The epilogue of this paper illustrates how companies can radically reimagine their customer base in a Metaverse-based future and understand key implications for future growth.

## Responding to rapid change and rising diversity, companies are adopting a more agile operating model

Simply drawing a new map doesn't guarantee success. Like any explorers of the world, companies need to continually refresh their capabilities and put careful planning into action, shifting the way they deploy capital, innovate, and make decisions. Some priorities to consider include the following:

- **Create an agile resource-reallocation process.** Companies chasing growth may need to strike a difficult balance between allocating sufficient capital to pursue new opportunities seriously and being flexible enough to respond to a fast-changing market. Yearly planning cycles, sticky budgets, and status quo business reviews may need to be replaced by frequent resource reallocation discussions in which genuine trade-offs are considered. McKinsey has highlighted the importance of creating liquid resource allocation, finding that companies that have outperformed on the generation of economic profit reallocate more than 60 percent of their capital to new business units or high-growth business

<sup>190</sup> Clemens Dabelstein, Philip Schäfer, Dennis Schwedhelm, Jingbo Wu, and Ting Wu, "Winning the Chinese BEV market: How leading international OEMs compete," May 2021, McKinsey.com.

<sup>191</sup> Paytm, [paytm.com](https://paytm.com).

<sup>192</sup> Hirsh Chitkara, *Samsung and LG are set to unveil AI-equipped smart fridges with food-identification capabilities*, Insider, January 6, 2020.

<sup>193</sup> Kim Je-heun, "Luxury brands find future with 'Metaverse,' blockchain," *Korea Times*, May 5, 2021.

units over the course of a decade.<sup>194</sup> For example, CPG companies may need to divest from product lines whose growth is faltering because of demographic changes such as declining fertility rates and smaller households. Reckitt Benckiser, for example, is divesting its Chinese infant formula business.<sup>195</sup> Companies may redeploy freed-up capital to new avenues of growth in Asia. Many multinational corporations are making such moves through both organic and inorganic growth. Colgate expanded its presence in Asia's growing economy through acquisition, buying Myanmar toothpaste brand Laser in 2014 and acquiring a stake in Bombay Shaving Company in 2018.<sup>196</sup> Nestlé set up its first factory for plant-based products in Asia in 2020, and it has since launched a line of meatless products to address concerns about the impact of meat on the environment. The company has also marketed a plant-based, ready-to-drink latte in Malaysia before offering the product in markets outside Asia.<sup>197</sup>

- **Increase speed to market of innovation.** Historically, many companies have relied on internally focused innovation processes with long lead times, but this needs to change given the speed of shifts in Asia's consumption landscape. Speed is of the essence, as it enables a test-and-learn approach with quick market feedback from consumers. Shanghai Chicmax, for instance, has created an innovation cycle that enables it to move from concept to sales of face masks in under three days, while some competitors may take up to three years.<sup>198</sup> Faster innovation also enables companies to create more choice for customers and to take a more experimental approach to discovering consumer tastes and adjusting their offerings accordingly. British pharmaceutical company GSK, for example, offers more than 30 times the diversity of products in some categories in China than it does in Europe.<sup>199</sup> To achieve a faster cadence for innovation, companies can consider opening up innovation cycles, for instance by seeking out external partnerships, localizing R&D, and employing more rapid test-and-learn approaches to product development. Belgium-based multinational drinks company AB Inbev, for example, created national and regional innovation teams in China, partnering with Tmall's innovation center in 2019 and gathering feedback from online and offline consumers to make a craft beer tailored specifically for China. The company also partnered with Brewing Technology Academy and Hubei Light Industry Technology Institute to innovate with and train students to be future brewers.<sup>200</sup>
- **Empower local decision making.** Many companies will require a more granular approach to the region than simply setting up an Asia division. Defining markets will more than likely vary by category, and those definitions can change rapidly. Centralized decision making and execution are not likely to be sufficient to capture the nuances of local markets; local autonomy and talent are crucial to making the right decisions for the right markets at the right time. Hindustan Unilever Limited, for instance, created a highly localized leadership structure. To further cement agility and delegation, the company subdivided India into 15 consumer clusters as part of its "Winning in Many Indias" strategy, creating 16 country category business teams that act as "mini boards."<sup>201</sup>

<sup>194</sup> *How to make the bold strategy moves that matter*, December 2019, McKinsey.com.

<sup>195</sup> Siddharth Cavale, "Reckitt to sell China baby formula business for \$2.2 bln," Reuters, June 7, 2021.

<sup>196</sup> Maverick Martins, *Colgate-Palmolive Asia Pacific buys stake in Bombay Shaving Company*, Fashion Network, August 24, 2018; and P.R. Venkat And Shibani Mahtani, "Colgate buys Myanmar toothpaste brand," *Wall Street Journal*, October 28, 2014.

<sup>197</sup> Michelle Toh, "Milk-free Milo and meatless 'pork': Nestlé and other brands bet big on plant-based food in Asia," CNN Business, April 7, 2021.

<sup>198</sup> Yuan Yang, "Social media influencers help Chinese brands outfox foreign rivals," *Financial Times*, June 26, 2021.

<sup>199</sup> *Ibid.*

<sup>200</sup> Jenny W. Hsu, "AB InBev, Alibaba get crafty in China's beer market," *alibaba*, February 4, 2019; and Lester Wan, *AB InBev opens new craft brewing plant in China to meet rising demand for premium beers*, Foodnavigator-asia.com, February 8, 2018.

<sup>201</sup> *Annual report 2020–21*, Hindustan Unilever, hul.co.in/Images/hul-annual-report-2020-21\_tcm1255-561812\_1\_en.pdf.

- **Ensure the board is fit for the digital age.** As Asian consumers leapfrog toward digitization, having a digitally savvy board may be a vital differentiator of company performance. According to a 2019 MIT report, companies with digitally savvy boards had at least 34 percent higher performance on growth in market capitalization, revenue, and return on assets. The report found that only companies with three or more digitally savvy board members had superior performance.<sup>202</sup> Boards differ in their level of preparedness for digital disruption. A 2019 survey found that more than 90 percent of directors in Vietnam reported that their boards were actively exploring new digital tools, compared with 75 to 80 percent of directors in Japan, Malaysia, and Thailand; 67 to 70 percent of directors in China and Singapore; and only 64 percent in the United States.<sup>203</sup> To address the digital deficit on boards, members need better knowledge about the technology environment. They also need faster, more effective ways to engage the organization and operate as a governing body and, critically, new means of attracting digital talent. Some CEOs and board members argue that the far-reaching nature of today's digital disruptions means that boards must view themselves as the ultimate catalysts for digital transformation efforts.<sup>204</sup>

### **Some companies are adopting a more open approach in response to the fragmentation of Asia's consumer markets**

Companies not only need to be agile but also need to take an open, networked approach. In these diverse and dynamic markets, it is likely to be hard for any company to be all things to all consumers, and for many, a promising way forward may be in partnership and ecosystems. Companies can consider a series of related moves.

- **Define your role in your ecosystem.** Companies deciding to open up their business and engage in ecosystem plays will face a set of interconnected decisions, including whether to lead their own ecosystem or to participate in an existing one, and which role they would be most effective at playing.

Where companies have the required capabilities and, crucially, the appetite to tackle a market that affords an opportunity to lead an ecosystem, the prize can be large. US and Chinese tech giants such as Alibaba, Amazon, and Tencent have adopted a leadership approach, developing their own ecosystems. Players are following suit in other markets. In India, an example is Reliance-backed Jio, whose super app MyJio currently has more than 150 million monthly active users.<sup>205</sup> Still, this strategy implies a big bet and appetite for risk, given that many competitors are creating their own ecosystems and striving for leadership; in India, examples include Paytm and Flipkart. Where conditions make it unlikely that a new digital ecosystem would succeed given winner-takes-all dynamics, players may explore a different approach. In such cases, a niche ecosystem leadership is possible. PerroPack in Singapore is exploring one such strategy by creating a "pet care ecosystem."

Leading is not, however, the only way to achieve success in a digital ecosystem. For incumbents in highly disputed markets, participating in ecosystems orchestrated by other players may be the correct move. McKinsey's research on ecosystems found that participants may need to find specific control points where they can provide distinctive value. In such cases, the key imperative for players is to offer a specific competency that is hard for others to replicate, thus retaining their bargaining position within the overall ecosystem. For example, Japanese drug maker Shionogi and the digital ecosystem player Ping An have partnered to formulate and distribute new medications in China. The aim of

<sup>202</sup>Peter Weill, Gary Scholten, and Stephanie L. Woerner, *Working with boards on digital*, MIT Center for Information Systems Research, research briefing number XIX-9, September 2019.

<sup>203</sup>Diana Wu David and Sunshine Farzan, "Boards are undergoing their own digital transformation," *Harvard Business Review*, July 2019.

<sup>204</sup>Hugo Sarrazin and Paul Willmott, "Adapting your board to the digital age," *McKinsey Quarterly*, July 2016.

<sup>205</sup>"Reliance Jio-led super app battle to intensify in India in 2021," *Economic Times (India)*, October 15, 2020.

this partnership is for Ping An to expand its healthcare services and for Shionogi to enter the fast-growing Chinese pharmaceuticals market.<sup>206</sup>

- **Build the capabilities to navigate digital ecosystems.** Given the more complex and open sector landscape, companies need to navigate new digital ecosystems and handle much larger amounts of data. Partnerships may often be the answer, but the ways partnerships are formed may need to change. Speed (long, drawn-out negotiations will likely miss the mark) and diversity of partners are likely to be important. Chinese firms in particular have demonstrated the potential for new types of collaboration and the creation of shared value.<sup>207</sup> They include much more open data architectures where different participants can benefit from data generated through the broader ecosystem. Freshippo (from Alibaba) allows both larger brands and lesser-known Chinese small and medium-size enterprises to share data in hybrid online/offline supermarkets. Another feature of partnerships in the region is the inclusion of nonmarket actors such as governments in digital ecosystems. During the pandemic, the Alibaba ecosystem cooperated with Shanghai's government to deploy a QR-based tracking system. Though some of the mechanics of these partnership models are unique to the Chinese local digital ecosystem, the underlying principles of reexamining how cooperation across more areas can unlock shared value can be applicable to other markets.

Digital and analytics will continue to grow in prominence in the region as new volumes of data arise, more aspects of consumers' lives shift online, and digital ecosystems become an ever more prominent channel to serve consumer demand. There is a large opportunity for companies that can develop the right capabilities to identify and capitalize on new growth angles, generating more network benefits by leveraging multiple data sources. For example, Kasikorn Bank (K Bank) in Thailand has developed its loyalty program and a new customer network through its banking app K Plus, Thailand's most popular mobile banking app. In the app, users can make payments, request loans, and even store other loyalty cards such as AirAsia BIG point and PTT Blue Card, which are compatible with the K Bank reward program.<sup>208</sup> Developing these capabilities is not a trivial ask. For example, many financial services companies will likely need to rebuild their tech stack to be able to leverage their large volumes of customer data.<sup>209</sup> Finding the right digital talent may be a key challenge. Many companies will need to rethink their hiring and management practices in tech-talent battlegrounds from customer experience to cybersecurity and privacy.<sup>210</sup>

- **Prepare for a different approach toward risk management.** New sources of risk and potential issues propagate faster in a digital world and one that is characterized by interactions with multiple parties. New uncertainties may include business-model risks in cases, for instance, where ecosystem partners attempt to disintermediate competitors; data risks as data-sharing arrangements in the ecosystem potentially lead to a loss of proprietary insight into customers; and even reputational risk arising from choice of partners. In an open networked system, companies need to consider not only their own risks but also those of their partners. And the world is full of uncertainty for business. The frequency and magnitude of shocks to value chains are rising.<sup>211</sup> As companies become more networked, and therefore more dependent on partners, a new skill set of understanding broader risks across their ecosystems will arguably be crucial to navigating future disruptions.

---

<sup>206</sup>Yuta Shimono, "Shionogi to leverage Ping An health care data to speed growth," *Nikkei Asia*, November 5, 2020, [asia.nikkei.com](https://asia.nikkei.com).

<sup>207</sup>Shameen Prashantham and Jonathan Woetzel, "3 lessons from Chinese firms on effective digital collaboration," *Harvard Business Review*, August 2020.

<sup>208</sup>K Bank, [kasikornbank.com](https://www.kasikornbank.com).

<sup>209</sup>Suparna Biswas, Brant Carson, Violet Chung, Shwaitang Singh, and Renny Thomas, "AI-bank of the future: Can banks meet the AI challenge?," September 2020, McKinsey.com.

<sup>210</sup>Matthias Daub, Ranja Reda Kouba, Kate Smaje, and Anna Wiesinger, "How companies can win in the seven tech-talent battlegrounds," October 2020, McKinsey.com.

<sup>211</sup>*Risk, resilience, and rebalancing in global value chains*, McKinsey Global Institute, August 2020.

---

Diversity is the leitmotif of consumer markets in Asia over the next ten years, and companies need to redraw the contours of their growth map for the region to reflect the fact that the center of gravity of the income pyramid is shifting upward and that changing sources and patterns of consumption are opening up opportunities that may create value for consumers and shift significant shares of demand to new consumption curves. Armed with detailed knowledge of the dynamic changes under way, winning companies are likely to be those that ensure that they are agile and open.

# Epilogue: Imagine futures

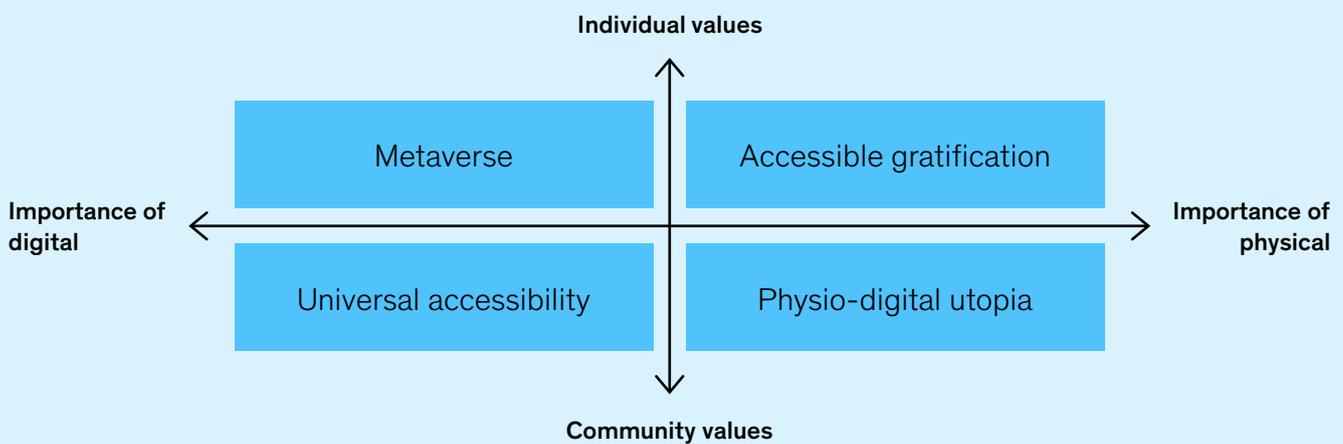
Asia's consumer landscape is evolving rapidly as technology advancement accelerates, new consumer preferences and behavior emerge, and large disruptions such as COVID-19 and climate risk potentially exert powerful influences on consumers. In this fast-changing and uncertain world, the reality is that corporate decision makers face a huge challenge. An analytic fact base is a necessary first step for strategists, but companies can go a step further, using new methods to try to anticipate and imagine the future—or a range of potential futures—so that they can act in anticipation.

This epilogue explores possible futures beyond the 2030 timeframe of this paper's analysis using McKinsey's Design x Foresight approach (see the technical appendix for methodological detail). We show four possible scenarios for Gen Z that could occur in Asia (Exhibit 35). Each of these scenarios represents an amplified version of underlying trends. They are not necessarily intended to represent the future accurately, but instead to illustrate the full potential range of futures that may play out. An article published later in 2021 will explore in more detail possible futures for Generation Z and seniors.

Exhibit 35

## Four possible futures await Generation Z.

Scenarios



Source: McKinsey Global Institute analysis

## Asia in 2030: Scenario overview

### Metaverse

Younger generations spend most of their time online in a virtual shared space that is a global community. They consider this place to be as real and relevant a part of their lives as their physical surroundings—if not more so. They put on their visual aids and sounds and connect to various “verses” where they work together, take classes, socially interact, and furnish with virtual products. Visual and audio are key elements defining products. Depending on the virtual space they inhabit, they are different versions of themselves—one hour a hard-working company employee, the next hour an innovative entrepreneur, and the next an avid fan follower or e-sports gamer. They are not bound by time zones or geography. They have never met many of their friends. In the Metaverse, consumption at home soars because this is largely where they spend their time (see illustration, “Irene: A Metaverse story”).

### Accessible gratification

People want physical goods not only to make their lives more meaningful but also to show others what they value—vacation houses, luxury cars, high-quality fashion items, or well-designed home furnishings—and even make them envious. Social media is a way to show off what they want and what they have. In the advanced sharing economy, people can own high-end global brands and enjoy high-end services even at middle incomes. Rules-based sharing matters because access to goods and services is about choice as well as cost-effectiveness. Even exclusive products are offered only on a sharing basis. Overall, consumers can manage their budgets, exercise choice, and, at the same time, avoid building up debt.

### Physio-digital utopia

Even in an increasingly digitized world, people have a strong appreciation of the physical world, which continues to offer attributes that are elusive online—human authenticity, emotion, and, importantly, actual physical human contact. Physical goods can be touched, felt, smelled, and tasted. Local culture, art, daily rituals, and community ties are still strong elements of what defines an individual life. Digital tools will continue to be ubiquitous, but they will be used to fulfill physical desires and needs. As more working tasks are replaced by automation and artificial intelligence, people and their talent will shift to tasks that rely on human interaction and are harder for computers to undertake: R&D, marketing, teaching and training, nursing, crafting, and counseling, some of which are handled by low-income cohorts. Consequently, the low-income cohort shrinks as many jobs in a digitized world are no longer salaried based on region of origin, and compensation increases to meet a higher, balanced global income standard. An understanding of ways and means to sustainably make use of local community physical resources, goods, and services via the sharing economy is the status quo. In short, literacy levels about the benefits and limitations of technology are high.

### Universal accessibility

Our digital world opens up broad and diverse educational and training opportunities to those with low incomes, enabling them to gain skills that were not possible before and transition into higher-paying work that will boost their incomes—so long as they have the literacy to explore the opportunities that are increasingly on offer. As automation spreads, positive outcomes result when people have the right education and skills. Automation will replace many low-paid and often dangerous physical jobs, freeing the people who performed them to develop themselves. Armed with the right education and skills, not only will they see their incomes rise, but they will begin to redefine how to be happy. They will spend more time with family and friends, and have a heightened appreciation of the world around them, prompting more care for the environment, community, and local traditions and indigenous cultures. Digital services enable people to experience a variety of cultures and to access them in ways that do not create a carbon footprint; virtual tours become mainstream, and arts and culture go digital and are archived.

## Irene: A Metaverse story

Surabaya, Indonesia, 2030

Irene, 25

Female

Grew up in Jakarta

Lives with her younger sister

Holds microdegrees in tourism and communications

Works in tourism and is a semiprofessional digital fashion coordinator

Interested in fashion, arts, socializing

Irene feels she has the best of both worlds. She remains grounded in familiar traditions and lifestyle, which she cherishes, but she can also use her talent and passion to seek out global opportunities. She straddles the physical and digital worlds in her job in tourism, which centers on coordinating meetings for global corporations, securing the right virtual space for the purpose of each meeting. And she has been able to branch out. Her reviews from clients, many of whom have remarked on her artistic and design sense, have been so good that she has carved out a second job as a personal consultant who gives fashion and home furnishing advice. Today, she chose an authentic Indonesian resort house space to introduce her culture to a potential new business partner for her company.

**“I love having several identities because it gives me opportunities to look different as well as behave differently.”**



## A day in the life of Irene

Irene wakes up in her high-rise apartment in Surabaya and connects with her AI assistant, Citra, to go through her schedule, have a morning chat, and joke, all to background music chosen by an empathetic modeling program. Citra is a brilliant organizer but also a good listener—she knows what it takes to relieve Irene of her stress and suggests some relaxing activities for the day.

It is going to be warm outside, and traffic will be heavy, but Irene's commute is short—in fact, all of two minutes. She walks down the hallway in a new business outfit designed for working from home: comfortable but professional. She puts on her Metaverse goggles and logs into a meeting in Oregon. She has a hybrid working life, which is commonplace in 2030. She has an office but can do most of her work remotely; she spends a lot of time in the Metaverse. She is completely accustomed to this life, yet only ten years ago it seemed like the stuff of science fiction.

Irene lives with her sister, who is still studying. She works on the thesis for her degree from the apartment while Irene prepares lunch. They love the autopilot drone that carries the meal from the kitchen to the dining table. The sisters grew up in Jakarta but left for the booming city of Surabaya when Irene's sister was accepted by a college there. Irene was cool about moving because she knew she could work anywhere, and she wanted to look after her sister

while doing so. While enjoying a bowl of vegetarian nasi goreng, they check in with their parents, who live with their grandparents in a Surabaya suburb, via video call.

After lunch, Irene takes a 30-minute virtual walk with her friend in London before doing some exercise in a spare Metaverse room that allows for movement in physical space. In the afternoon, she works with Citra to prioritize meetings and jumps around the world to explore new sites and monitor events to inspire new ideas. At 4 p.m., she drops into a digital cafe for a fashion consultation with a client. Together they visit 11 digital shops and try on 36 outfits, all within 90 minutes. It was a great session, full of smiles. Afterward, Irene quickly changes her digital outfit for an online dinner date with her partner, who lives in Hong Kong. They excitedly plan an offline date in a month's time.

All in all, she has a good work-life balance, and her blend of physical and digital worlds offers her a great deal. She lives with the person closest to her—her sister—but also has the company of her virtual best friend Citra. Her hybrid work life gives her enormous flexibility, and the Metaverse gives her access to her passions of art and fashion, enabling her to travel and shop wherever she wants. She takes advantage of hyper-personalization to immerse herself in the latest trends for both her physical and digital personas.

## Metaverse scenario: Potential opportunities for companies

In the digital Metaverse, social activities exist in a collective virtual shared space, and commodified virtual experiences translate into consumer products and services. The Metaverse offers companies many new opportunities, including the following:

### New live shopping experiences in a virtual world

The Metaverse enables a new retail experience that blends the engagement of physical shopping with the huge range of choice offered by e-commerce. In the Metaverse, consumption mimics real-world shopping by enabling consumers to visit virtual stores, touch and test products virtually, and even try them out using augmented reality. For companies, a number of potential action points arise.

- **Retailers and e-commerce platforms** can leverage their networks of vendors and management experience to develop the capabilities needed to run Metaverse shopping platforms, including tools that enable consumers to try out and test products.
- **Consumer companies** can create virtual versions of their current products that are enhanced for Metaverse life, as well as variants and upgrades of those products.
- **Manufacturers** can release conceptual products and prototypes in the Metaverse to test market reaction and collect feedback before putting them into production, thereby reducing R&D cost and market uncertainty.

### New forms of consumption of digital assets and experiences

Companies have many opportunities as consumers shift spending to their digital life on everything from dating to education, traveling, and even taking a stroll.

- **Consumer products and service providers** can create digital-only versions of goods and services that cater to the personalized virtual experience, including games and furniture in virtual homes. Luxury brands can create virtual and personalized luxury clothing for avatars; since fabric quality is less relevant, art and design become the key distinguishers.
- **New platforms** integrating digital DIY products can spread as the Metaverse lowers the barriers to content production by amateurs. Consumer product companies can cooperate with these platforms to deepen their personalization strategy.
- **Financial institutions** can offer new solutions, for instance using real-world or digital collateral to finance investment in digital assets.

### An optimized offline life for the Metaverse

Lifestyles change as people spend most of their time in the Metaverse, shifting patterns of demand.

- **CPG and apparel companies** can adjust their product portfolios to new lifestyles. For instance, as fewer people work in offices, comfortable shoes take over from stilettos.
- **Real estate developers** can offer housing with new features such as a private or shared Metaverse room in apartments, much like the shared apartment gym of today. As physical location wanes in importance, fewer office buildings are needed and more residential development happens outside major cities.

### Multiple identities to reflect customer segmentation

Consumers adopt different identities in their physical and digital worlds; they could be, say, a 20-year-old factory worker in the physical world, but a 50-year-old tour guide in the Metaverse. Such multiple identities offer a range of opportunities.

- **Manufacturers and service providers** accustomed to segmenting customers based on demographic data can radically reconsider their approach to analyzing customer behavior when identity is no longer tied to a single lifestyle.
- **Financial institutions** incorporate both physical and digital lives in their decision making about lending or insurance pricing, taking a more holistic view of consumers.

# Technical appendix

This appendix provides additional details about the main sources of data and methodologies used in this paper in the following sections:

- Consumption growth projections
- City-level analysis and household income tiers
- Category and country breakdown of consumption figures
- Projections of demand proportions following new consumption curves
- McKinsey Design's Design x Foresight approach

## Consumption growth projections

Total consumption growth figures are drawn from McKinsey's Global Growth Model baseline scenario. This scenario assumes that Asia's long-term growth trajectory is not materially affected by the pandemic, consistent with a ten-year consensus of views formed before the pandemic by multiple institutions, including the Economist Intelligence Unit, the International Monetary Fund, Oxford Economics, and IHS Markit. To account for uncertainty in the shape of the recovery, McKinsey's Global Growth Model simulations encompass a range of scenarios. The share of total consumption growth originating in Asia from those scenarios ranges from 45 to 50 percent of global consumption growth at current market prices.

To evaluate the evolution of the global consuming class and the distribution of the income pyramid, we use World Data Lab's Market Pro data set. This data set contains estimates of population and consumption figures, stated in 2011 purchasing power parity terms, broken down by country, age range, and income tier (see the mapping of these income tiers to our definition of the consuming class in Box 2).

To estimate potential incremental consumption arising from women's economic empowerment on top of business-as-usual projections, we build on the findings and methodology of *The power of parity: Advancing women's equality in Asia Pacific*, McKinsey Global Institute, April 2018. As a high-level estimate of incremental consumption growth, we apply private consumption shares at a country level to the estimated GDP growth opportunity. This is a simplified approach that takes an average instead of a marginal approach to the private expenditure proportion of income, and does not take into account second-order effects.<sup>212</sup>

## City-level analysis and household income tiers

We use McKinsey's Cityscope v4.1 database for city-level projections of households in different income tiers and the total population. Cityscope is a database of more than 3,000 cities around the world, including about 1,500 in Asia, which enables understanding of the evolving shape of global urban economies. Cities are defined as integrated metropolitan areas rather than specific municipal jurisdictions, aggregating neighboring cities into a single urban center where appropriate. The database includes all metropolitan areas with populations of more than 200,000 in 2020.

For each city, the database covers population, consumption, and household income tiers for 2020 and 2030. It draws on household consumption figures from public survey data and on population and GDP figures from diverse sources such as the United Nations, national statistical offices, MGI models for Indian and Chinese cities, and econometric models.

---

<sup>212</sup> For more details on the methodology, see *The power of parity: Advancing women's equality in Asia Pacific*, McKinsey Global Institute, April 2018.

## Category and country breakdown of consumption figures

To estimate the current breakdown of consumption across categories for different countries, we largely use Euromonitor's Passport data, which breaks down consumption into dozens of subcategories. We use this approach for descriptive analysis of current consumption patterns, including in chapter 1. When making projections, we consider both current shares based on Euromonitor Passport data and some high-level adjustments for likely developments. For example, in chapter 2 we consider how different categories could grow based on women's economic empowerment in different countries, triangulating current consumption patterns, observing trends in their shares, referencing consumption patterns of more developed economies, and qualitatively assessing which categories could most benefit from increased spending power among women, based on expert interviews.

## Projections of demand proportions following new consumption curves

To estimate the relative impact of new consumption curves in each sector, we assess the range of new demand that could follow new consumption curves in automotive, CPG, and financial services. These estimates are directional and meant to indicate which sectors could be more or less disrupted, but they should not be taken as precise point estimates. Our methodology includes three steps: evaluation of the current distribution of demand and value pools within an industry; evaluation of which value pools (or portions thereof) could follow a different consumption curve by 2030; and creation of ranges around potential shifts based on scenario analysis or expert assessment. The following are key data sources for each sector:

- **Automotive.** To estimate the potential size of demand following different consumption curves, we consider how large a share of total revenue EV and shared mobility players could have by 2030 using a range of scenarios. Our estimates cover value pools from private vehicle sales and shared mobility, but not micromobility. We use models from the McKinsey Center for Future Mobility.<sup>213</sup> Those models are the following:
  - **Mobility Market Model.** This model contains city-level modal mix projections covering ten modes of private, public, and shared transportation with details on personal and vehicle miles traveled, light-vehicle sales, production, vehicle parc (stock), and demand for shared modes.
  - **Mobility Financials Model.** This model provides a detailed view of all mobility and automotive-related value and profit pools, breaking down value chains by region.
- **CPG.** The model we developed for beer and personal care draws on Euromonitor data on the current distribution of revenue and margin pools and takes into account potential changes in the channel mix. We consider only the distribution of value (not growth in that value) by keeping the total quantities fixed. Separately, to estimate the potential size of demand following different consumption curves, we consider the potential penetration of eB2B and e-commerce as well as the potential share of sustainable alternatives by 2030. For the latter, we leverage publicly available information about the penetration of sustainable alternatives across Asia, using data from reference markets including China and the United States. For the latter, we use the 2020 Sustainable Market Share Index from the NYU Stern Center for Sustainable Business.<sup>214</sup>
- **Banking (representing financial services).** We use McKinsey's Banking Value Pools, which estimate current and future revenue and margins (before and after the cost of risk) of banks at the country level and for product categories including payments, wealth, and different forms of lending and deposits.<sup>215</sup>

---

<sup>213</sup> McKinsey Center for Future Mobility.

<sup>214</sup> Sustainable Market Share Index, NYU Stern Center for Sustainable Business, [stern.nyu.edu](https://stern.nyu.edu).

<sup>215</sup> Global Banking Pools, McKinsey & Company.

## McKinsey Design's Design x Foresight approach

McKinsey Design's Design x Foresight initiative fuses strategic foresight, futures design, and design thinking to investigate trends, implications, scenarios, and speculative products and services to derive an understanding of the future.<sup>216</sup> The approach has the following four phases:

- **Trend research and synthesis.** The aim of this phase is to capture both strong and weak signals—the latter being trends that are not yet significant but are beginning to evolve—against a STEEP framework that enables research to expand into broader domains, captures cross-functional trends, and signals synthesis.<sup>217</sup>
- **Scenario planning.** In this phase, uncertainties are identified and the implications of strong and weak signals explored. Possibilities that drive multiple different future scenarios are clustered using a collision of insights from a range of experts and internal stakeholders that are then used to develop a narrative for each scenario.
- **Ideation and concept development.** Here, we use insights and their implications for future outcomes to develop expanded future products and services ideas that embody scenarios and prototypes for scenarios to validate and assess.
- **Strategy and back-casting.** In the final phase, scenarios are back-cast to capture opportunities in current strategies and to continue to monitor indicators of how the future is unfolding so that companies and organizations can plan ahead and “future-proof” strategy.<sup>218</sup>

---

<sup>216</sup> Strategic foresight is a discipline that identifies emerging trends and issues, and then uses these insights to map out possible future scenarios to support decision-making in the present. Futures design is an innovation approach that helps companies imagine new possible futures through techniques such as design fiction, future concepting, and speculative design.

<sup>217</sup> STEEP stands for social, technological, economic, environmental, and political. There are other categories, but these are the ones that are most widely used to categorize trends, signals, and implications, and to create connections.

<sup>218</sup> Back-casting is a methodology that takes a possible future and then works backward to arrive at the present by identifying all of the dependencies and milestones that would have to occur to create that future. This helps in the monitoring of triggers as the future unfolds.

# Acknowledgments

This paper is part of a series on the future of Asia, prepared in collaboration with the Asia offices of McKinsey & Company, which will all be available at [mckinsey.com/featured-insights/future-of-asia](https://mckinsey.com/featured-insights/future-of-asia).

The research was led by Oliver Tonby, McKinsey senior partner in Singapore; Jonathan Woetzel, McKinsey senior partner and a director of the McKinsey Global Institute in Shanghai; Rohit Razdan, McKinsey senior partner in Singapore; Wonsik Choi, McKinsey senior partner and managing partner, Korea, based in Seoul; Sven Smit, McKinsey senior partner and co-chairman of MGI; Naomi Yamakawa, a McKinsey partner in Tokyo; and Jeongmin Seong, MGI partner in Shanghai. We also benefited from the advice and input of MGI Council members Eric Hazan, McKinsey senior partner in Paris, and Sha Sha, McKinsey senior partner in Hong Kong; as well as Jaana Remes, MGI partner in San Francisco. Tiago Devesa, a McKinsey consultant in Sydney, led the project team, which comprised Eduardo Dorian, Jose Pablo Garcia, Amit Hooda, Gary Liang, Yifei Liu, Nahomi Matsuo, Hiroshi Mizuno, Elaine Pan, Erik Rong, Aarthi Sridhar, Jason Wardiman, and Yang Yao. We owe special thanks to the members of McKinsey's Futures team who contributed some new thinking on scenarios for the future, namely Phil Balagtas, Steve Fisher, Madoka Ochi, and Daniel Peterson. We are also grateful to members of the McKinsey Center for Future Mobility, including Deston Barger, Julian Conzade, Gourav Ganguly, Kersten Heineke, Nicholas Laverty, Andreas Mertens-von Rüden, Timo Möller, Felix Rupalla, Dennis Schwedhelm, Darius Scurtu, and Allen Zhuang. We thank Meng Liu of McKinsey's risk team.

We thank our academic advisers, who challenged our thinking and provided guidance, namely Rakesh Mohan, a senior fellow at the Jackson Institute for Global Affairs at Yale University and distinguished fellow at Brookings India; Gordon Orr, director emeritus and senior adviser to McKinsey; and Andrew Sheng, distinguished fellow of the Asia Global Institute.

Many McKinsey colleagues provided input for which we are grateful. We thank Axel Baur, Asina de Branche, Jenny Child, Mahima Chugh, Violet Chung, Matthieu Francois, Tomohiko Funaishi, Mingyu Guan, Jenny Han, Lauren Humphrey, Naoyuki Iwatani, Kanika Kalra, Aimee Kim, Boyoung Kim, Mekala Krishnan, Anu Madgavkar, Abhishek Malhotra, Detlev Mohr, Bill Peng, Ali Potia, Istvan Rab, Alex Sawaya, Thomas Rüdiger Smith, Mukund Sridhar, Kunal Tara, Renny Thomas, Simon Wintels, Nicole Zhou, and Daniel Zipser.

We thank MGI senior editor Janet Bush for producing this paper; Cathy Gui, head of MGI external relations in Asia; Lauren Meling, MGI's digital editor; Marisa Carder and Patrick White, MGI graphics specialists; and Vasudha Gupta, MGI editorial production manager. We are grateful to Debbi Cheong, Samantha Hayden, Kathryn Haynes, Khairin Ilias, and Paul Marriage of McKinsey's Asia external relations team.

This paper contributes to MGI's mission to help business and policy leaders understand the forces transforming the global economy and prepare for the next wave of growth. As with all MGI research, this work is independent, reflects our own views, and has not been commissioned by any business, government, or other institution. We welcome your comments on the research at [MGI@mckinsey.com](mailto:MGI@mckinsey.com). This paper is a collaboration between the McKinsey Global Institute and McKinsey & Company.

# Related MGI and McKinsey research

*China consumer report 2020: The many faces of the Chinese consumer*, McKinsey & Company, December 2019.

*Climate risk and response in Asia*, McKinsey Global Institute, November 2020.

*The consumer demand recovery and lasting effects of COVID-19*, McKinsey Global Institute, March 2021.

*The future of Asia: Asian flows and networks are defining the next phase of globalization*, McKinsey Global Institute, September 2019.

*The future of Asia: Decoding the value and performance of corporate Asia*, McKinsey Global Institute, May 2020.

*The future of Asia: How Asia can boost growth through technological leapfrogging*, McKinsey Global Institute, December 2020.

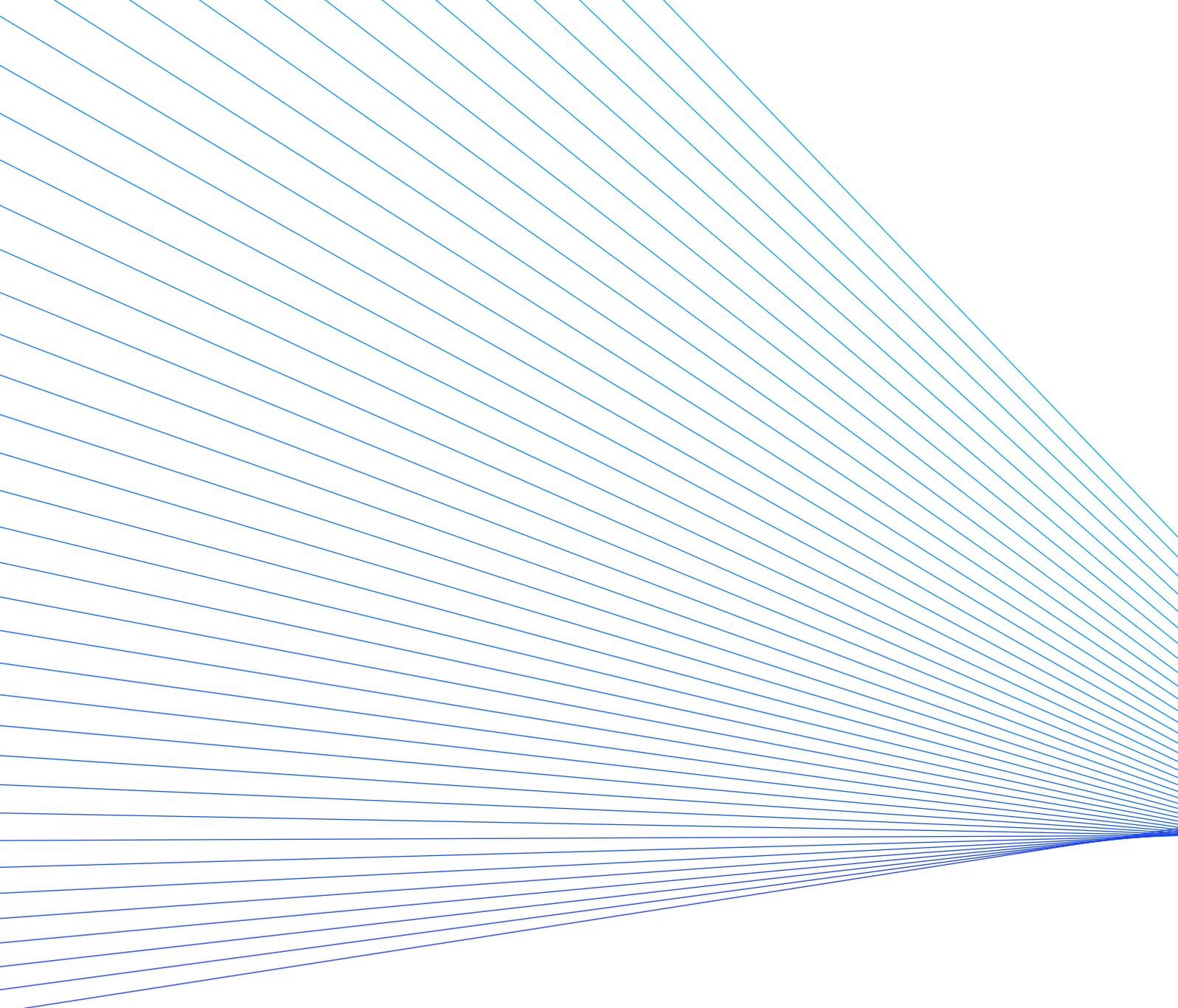
*The power of parity: Advancing women's equality in Asia Pacific*, McKinsey Global Institute, April 2018.

*Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012.

*Urban world: The global consumers to watch*, McKinsey Global Institute, March 2016.

[www.mckinsey.com/mgi](http://www.mckinsey.com/mgi)

Download and listen to MGI podcasts on iTunes or at  
[www.mckinsey.com/mgi/publications/multimedia/](http://www.mckinsey.com/mgi/publications/multimedia/)



McKinsey Global Institute  
September 2021  
Copyright © McKinsey & Company  
Designed by the McKinsey Global Institute

[www.mckinsey.com/mgi](http://www.mckinsey.com/mgi)

 @McKinsey\_MGI

 @McKinseyGlobalInstitute

 @McKinseyGlobalInstitute

Subscribe to MGI's podcast, *Forward Thinking*:  
[mck.com/mgi/forwardthinking](http://mck.com/mgi/forwardthinking)