



## Consumption in Asia from a new perspective

Focusing on domestic brands amid a big shift in Asia's consumption trend

Asia's consumption trends were once thought to be heavily influenced by those in the West, but that is no longer the case. Asian consumers have diverse tastes and influences and they are starting to dictate global trends instead of merely absorbing them. We believe that Asian brands are well placed to respond to this new paradigm.

By the Asian Equity Team

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### Potential for significant consumption growth

Asia's population makes it the most significant consumer market in the world. Moreover, the rapid economic growth of many Asian countries has increased disposable incomes. According to Euromonitor's *Income and Expenditure in Asia Pacific* report, total disposable income in Asia-Pacific is set to more than double in real terms over 2021–2040, faster than in any other region, but it is still among the lowest globally. Consumers in Asia are expected to account for half of global consumption growth within the next decade. No wonder McKinsey calls Asia "a \$10 trillion consumption growth opportunity".<sup>1</sup>

### Asia's diversity should not be understated

The world's most populous and geographically diverse continent is also home to a wide range of cultures, ethnicities, religions, languages and political systems, many of which are radically different from one another. With a diverse range of countries and cultures, it is important to understand the different cultural dynamics at play in Asia. India is very different from Indonesia, for example, in terms of religious beliefs, cultural practices and social constructs. One could make a strong case that Asia is much more nuanced than the West which is relatively more homogenous.

Asian consumption has been going through a paradigm shift in terms of the demographic dividend coming through, the rise of domestic brands, the increasing prominence of lower-tier cities (those that are smaller than major metropolises but rapidly growing and developing) and the growing awareness of environmental and social issues. The pandemic has been instrumental in deepening and accelerating these changes.

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<sup>1</sup> <https://www.mckinsey.com/featured-insights/future-of-asia/videos/driving-asias-10-trillion-consumption-growth-opportunity>

## Younger demographics and the demographic dividend

Many countries in Asia are benefitting hugely from the “demographic dividend”—the boost to consumption and economic productivity driven by its young and growing population. With increasing numbers of young people joining the workforce, Asia has a rich source of workers and customers. This is especially true for ASEAN countries and India. Millennials, also known as Generation Y (born between 1981 and 1996), and Generation Z (born between 1996 and 2010) are both characterised by the ease at which they use technology. According to McKinsey, 20% to 30% of Asian Gen-Zs and millennials spend more than six hours a day online.<sup>2</sup> The prominence of social media in the lives of these digital generations is evident.

Gen-Z consumers are also associated with a strong sense of self-identity and an inclination to express themselves through their consumption. In this, these younger generations are significantly different compared to older Asians, who in general are seen to focus more on utility rather than identity. Furthermore, young consumers are more willing to try new products and services and increasingly lean towards more innovative products. They look for unique brands—and not always those known for exclusivity. As a consequence, the products they purchase are often a clear form of self-expression, with many consumers taking their styling cues from social media influencers.

Therefore, marketing through influencers is often considered more important in Asia than in the West due to younger consumers who are more impressionable and engage more with social media. Companies able to engage the region’s youth have effectively seen some of the most disruptive growth in recent years.

**Cimory**, one of Indonesia’s most successful dairy and packaged food companies, aggressively gained market share and grew its sales threefold in two years after shifting from traditional above-the-line (ATL) advertising, such as television and billboards. Cimory focused on digital marketing, using hundreds of influencers to create viral posts that reached younger consumers. In India, fast-moving consumer goods (FMCG) companies now choose to sell sanitary health products and diapers through influencers.<sup>3</sup> While it used to be taboo to advertise these products in mass media, influencers have provided a direct-to-consumer advertising channel for these companies.

## The rise of domestic Asian brands

It was once thought that Asia would inevitably become more Westernised as the region developed—embracing key aspects of Western culture such as music, films, fashion, food and art. But Gen-Z are proving this thesis wrong. Asian youths are displaying a growing confidence in their own roots and culture. Young Asians have a stronger sense of national identity, especially across India and China. Foreign brands have struggled to understand the needs of Asian consumers and tend to introduce cookie-cutter products without much customisation to Asian consumers. Such a broad-stroke approach taken by foreign brands has helped improve attitudes towards homegrown brands. Although brands in Asia are not as well established, domestic brands are increasingly seen as being better able to understand and serve consumer needs when compared to international brands.

**Figure 1: Product offered by Florasis**



Source: Pexels

In China, domestic brands are incorporating traditional aspects of Chinese heritage. This has an increasingly strong appeal to consumers with growing appreciation of Chinese culture and a stronger sense of nationalism. For example, cosmetics company **Florasis** or “Hua Xi Zi” is capitalising on this trend. “Hua” is Chinese for flower while “Xi zi” or “Xi Shi” is the name of one of the four legendary beauties of Chinese lore. Florasis focuses on creating makeup deemed suitable for Asian women by extracting floral and herbal essences. The company’s makeup sets are carved with intricate Chinese designs (Figure 1).

<sup>2</sup> <https://www.mckinsey.com/featured-insights/future-of-asia/videos/driving-asias-10-trillion-consumption-growth-opportunity>

<sup>3</sup> FMCGs companies includes food and beverage companies, personal care companies, household goods companies, and pharmaceutical companies.

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Moreover, some domestic Asian brands are so successful they are exploring international expansion opportunities, subverting the mistaken but long-held assumption that only Western brands can operate and compete on a global scale. **Din Tai Fung**, a Taiwanese restaurant chain that specialises in soup dumplings and noodles, is popular globally with more than 170 locations in 13 countries.

## Rising consumption trends in lower-tier cities

The migration from rural locations to urban cities has been the reality for Asian countries over the past several decades. But a reversal of this trend has begun, with more citizens moving to lower-tier cities in pursuit of a better work-life balance, a lower financial burden and improved quality of life and environment, especially in China. This reverse migration has helped to improve the consumption levels in lower-tier cities. As a result, consumer-facing companies are pouring more capital into lower-tier cities for higher growth and returns. The value-for-money mindset is very prominent in lower-tier cities. Consumption of goods and services is not just about getting the highest quality product but also securing the best quality-to-price ratio.

In India, rural demand for FMCG has been more resilient and rising significantly faster than urban demand, thanks to strong farming income, less disruptions from the pandemic and stronger government support (this has included the free supply of food grains, direct money transfer and rural job guarantee programmes). **Britannia Industries** is one of India's leading food brands. It has achieved strong growth in recent years, much of which has been attributed to its strategic penetration of rural markets. The company has led in lower-tier cities with competitively priced and packaged lower unit packs for its basic and premium products. The company's distribution model has centred on direct distribution and a zero-day inventory model to ensure efficient and cost-effective delivery of products to rural locations.

Besides large markets such as China and India, we believe that Indonesia also has plenty of growth opportunities in its lower-tier cities. **Bukalapak** is an Indonesian e-commerce company focused on helping millions of mom-and-pop kiosks ("warungs") in lower-tier cities to go digital. The growth rate of digitalisation in Indonesia's lower-tier cities is materially faster than in major cities such as Jakarta, and the cost of such growth is lower, which is why Bukalapak could be on track to achieve profitability sooner than its peers.

## Awareness of environmental and social issues changing consumption patterns

The growing awareness of environmental and social issues is not just a Western phenomenon: Asian consumers are also catching on. A 2022 study by Bain & Company found that Asian consumers wanted to buy sustainable goods and were willing to pay premium prices for them, but that not all would actually follow through ("say-do gap"), for reasons such as insufficient information and a lack of trust in claims of sustainability.<sup>4</sup>

In the age of social media, there is a higher risk of larger reputational damage for Asian companies. Factors such as awareness and engagement with sustainability issues are seen to be rising the fastest among Asian consumers. Therefore, companies that close the say-do gap could set themselves up for success. Bain suggests that four out of five environmentally and socially conscious consumers in Asia-Pacific actively recommend the sustainable products they like, and that more than half of these consumers are "super promoters" who recommend the product to more than ten people.<sup>5</sup>

Companies actively involved in sustainability efforts are also seen to improve their brand equity. Those considered to be taking a proactive stance on sustainability issues, by demonstrating a long-term commitment to responsible growth, are increasingly more attractive to customers, investors and other stakeholders.

## Summary

A huge growth in Asian consumption is currently underway. The paradigm shift involving younger demographics becoming more productive, rising domestic brands, increasing prominence of lower-tier cities and growing awareness of environmental and social issues are all structural in nature. These structural shifts are seen to be underpinned by intrinsic personal desires that surpass basic physiological needs. As these desires become more

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<sup>4</sup> <https://www.bain.com/insights/unpacking-asia-pacific-consumers-new-love-affair-with-sustainability/>

<sup>5</sup> <https://www.bain.com/insights/unpacking-asia-pacific-consumers-new-love-affair-with-sustainability/>

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prominent with socioeconomic development, we believe that they present ample growth opportunities for the leading consumer brands in Asia.

As Asia develops further, Asian consumers' wants will likely continue to evolve. They may continue to choose brands that resonate with their sense of identity and nationalism—rejecting those that fail to strike a chord with either. In our view, successful consumer sector companies will be those that intrinsically understand their own markets and develop their own distribution channels, while aligning themselves with the cultural, social, and ethical considerations of their more youthful consumer base.

Asia is diverse, complex and home to many different countries and cultures. We therefore believe that from an investment perspective a “boots-on-the ground” approach is the best way to analyse the fast-changing dynamics. It is also the best way, in our view, to identify those brands set to benefit from this consumption megatrend.

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