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Insight Report

Future of Consumption in Fast-Growth Consumer Markets: ASEAN

A report by the World Economic Forum's Platform on Shaping the Future of Consumption
Prepared in collaboration with Bain & Company

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Contents

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Preface

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As this report is being published, the world is going through unprecedented times. COVID-19, a term that did not exist when this study was being undertaken over 2019, is now ubiquitous, even though the scale and nature of its global impact will not be known for months to come. As of the second quarter of 2020, a third of the global population has been under a lockdown, with over 200 countries affected by health and economic burdens in diverse ways. Businesses, governments and citizens across the world want to leave the humanitarian and economic crisis behind as soon as possible. To successfully navigate through the COVID crisis and a post-COVID world, a premium will be placed on innovation, the willingness of organizations to disrupt themselves, and active collaboration.

In the context of this seismic change, the World Economic Forum Platform for Shaping the Future of Consumption aims to accelerate the responsible transformation of the consumption landscape by enabling consumer well-being, environmental sustainability, inclusive growth models, and trust and transparency among all stakeholders. The mission and transformation goals of the Future of Consumption platform developed three years ago are now more relevant than ever to ensure positive benefits for business and society, across developed and emerging markets. It is an imperative that we advance progress with speed to build a prosperous future for all.

In a post-COVID era over the next decade, accelerated shifts in global forces, more than 1 billion first-time consumers and the Fourth Industrial Revolution will continue to change the landscape of consumption in the fast-growth consumer markets of China, India and the ASEAN region. Both business and political leaders will be required to adapt their strategies to the changing needs and demands of connected and empowered consumers. The Future of Consumption in Fast-Growth Consumer Markets, a multi-year project, has focused on the evolution of consumption in emerging markets that comprise more than 40% of the world's population. Critical foresights on drivers of growth and levers of inclusivity can benefit global leaders as they grapple with similar issues.

The 2017 study focused on China; in 2018, the focus was on India; the 2019-2020 study is the final, concentrating on ASEAN. The 10 ASEAN economies are among the fastest growing in the world. Countries within ASEAN are in themselves diverse, with economic, political and cultural nuances. Over the next years, the confluence of favorable demographics, rising income levels, geopolitical shifts and digital inter-connectedness will create tremendous opportunities in the region to advance inclusive and responsible consumption for decades to come.

Developed in collaboration with Bain & Company, this report builds on in-depth consumer surveys conducted across over 1,740 households in 22 cities and towns in ASEAN, covering all key demographic segments. It also draws from over 35 in-depth interviews with private and public-sector leaders. This research leads to rich insights on ASEAN's present and future outlook on consumption. The report highlights the most significant implications for businesses that aim to thrive in the ASEAN economies over the next decade. It also lays out a call to action for all stakeholders in ASEAN's growth to build an inclusive future for the region in a post-COVID world.

The project team of the World Economic Forum would like to extend its appreciation and gratitude to all parties who played a key role in developing this Insight Report: the Bain & Company team led by Praneeth Yendamuri and all participants who contributed via our meetings and interviews. We are confident that our collective effort will contribute to realizing a prosperous future, with sustainable benefits for both business and society.

Executive Summary

In the bustling cities of Jakarta, Ho Chi Minh City and Manila, green-helmeted motorbike taxi drivers whizz past warung or sari-sari stores. The presence of homegrown technology decacorns – new businesses like Go-Jek or Grab worth more than $10 billion – alongside thriving traditional mom-and-pop stores best illustrates South-East Asia's vibrant growth story. As a market bloc, the 10 member states of the Association of Southeast Asian Nations (ASEAN) are on the cusp of a tremendous leap forward in socio-economic progress, but on their own terms. ASEAN will not simply be the next China or India. The economic and cultural backgrounds of each ASEAN market are heterogeneous, and while the region will see abundant opportunities, each country will take its own distinct path to growth.

ASEAN is the world's third most populous economy and over the next decade is expected to become the world's fourth largest. Domestic consumption, which powers roughly 60% of gross domestic product (GDP) today, is estimated to double to $4 trillion. Yet, as this growth story plays out, public and private-sector organizations will first need to address the immediate COVID-led health and humanitarian crisis and its implications, while finding longer-term solutions to structural problems of income inequality, ease of doing business, sustainability and job creation.

It would be an understatement to describe 2020 as a challenging year. Like their counterparts around the world, government and business leaders in ASEAN face uncertainty as the COVID-19 pandemic disrupts economic activities and causes drastic changes in consumer behavior. As a sign of the huge impact, the Asian Development Bank (ADB) adjusted South-East Asian[1] growth projections down to 1% for 2020, although annual growth is expected to rebound to 5% in 2021, supported by positive macro-economic fundamentals.[2]

As we look further into the future, ASEAN growth will be propelled by four mega-forces: favorable demographics; rising income levels; geopolitical shifts; and digital tailwinds. Over the next decade, ASEAN will see 140 million new consumers, representing 16% of the world's consumers – many of whom will make their first online purchase and buy their first luxury product. Income levels are rising, with regional GDP per capita expected to grow by an annual 4% (similar to the US) to $6,600 in 2030,[3] causing many product categories to reach inflection points where consumption takes off. ASEAN will be a popular destination for foreign investment as multinationals rebalance supply chains to diversify geopolitical risk and make the most of the region's low-cost labour.

Rapid digital adoption in ASEAN will continue, spurred by digital native consumers, investor funding in technological innovations and government programs to support digital transformation. By 2030, there will be nearly 575 million internet users in the region, and digital will be ubiquitous in the daily consumption journey. As digital reaches the rural and low-income communities, it will remove barriers that inhibit small business growth and enable delivery of basic services such as healthcare, education and financial services. The COVID-19 pandemic has highlighted the urgency in providing under-served communities with digital access for obtaining health-related information and ordering essentials. It also has created a shift in government focus.

For example, two weeks after launching a program to reskill recent graduates and the unemployed, Indonesia's government shifted the focus to aiding workers who lost their jobs due to the pandemic.

There will be eight major consumption themes in ASEAN in 2030, such as the doubling of consumption and the blurring of the boundaries between premium and value shopping. Some of these themes will be accelerated by COVID-19, including digital adoption and shifting retail channels.

As the consumption landscape evolves over the next decade, public and private-sector leaders will face numerous opportunities and challenges. To unlock the region's full potential, stakeholders need to get a few things right:

1. **Ensure efficient and effective recovery from COVID-19:** On the health front, being vigilant with testing, effective prevention (including vaccination, when available) and treatment (including capability building for future pandemics). On the economic front, helping small businesses struggling to get back on their feet and providing stimulus and support to restart the devastated economy.

2. **Focus on talent development and socio-economic inclusion:** The next decade in ASEAN will see 40 million people reach working age, with digitalization disrupting the nature and number of jobs. An estimated 65% of children entering primary school today will end up doing a job that does not exist today.[4] The COVID-19 pandemic will expedite the switch to automated services. It will be critical to create new jobs, reduce the skills gap, and provide access to education, healthcare and nutrition to ensure a competitive and healthy future workforce.

3. **Upgrade infrastructure to support urbanization and resource management:** Rapidly growing demand is pressuring ASEAN resources. Urban consumers struggle with heavy traffic, a lack of affordable housing and low security, while rural communities deal with poor logistics networks and connectivity. As sustainability concerns grow, ASEAN will also need to find alternative energy sources to coal and oil. Stakeholders will need to invest in hard and soft infrastructure and develop efficient resource-management capabilities.

   One of the biggest sustainability issues facing ASEAN involves the huge accumulation of plastic waste. The region is the world's largest producer of mismanaged plastic waste, generating a staggering 30 times more than the US. For example, Singapore recycled only 4% of its plastic waste in 2018. As economies recover from the COVID-19 crisis, governments and businesses are likely to prioritize economic goals and the health and well-being of their citizens and employees over the environment. However, the recovery opens up the opportunity for creating a new vision for economic growth, one that considers the environmental consequences of every corporate and government action.

4. **Push for open and integrated regulation, with a hyper-local approach:** The region stands to gain from a more interconnected ASEAN with improved intra-regional flows of goods and services, investments, knowledge and human capital. However, stakeholders must bear in mind that there is no "single ASEAN". Macro and consumption themes will play out differently in each market, with product and policy localization a powerful differentiator.

Achieving ASEAN's full potential growth in 2030 requires that all stakeholders deeply understand each market, build strong public-private partnerships and strike a hard balance between technology advancement and job creation, economic development and sustainability, as well as scale advantages and concentration of power. Businesses and governments have a unique opportunity to shape ASEAN's exciting growth story if they thoughtfully steer the region towards inclusive and sustainable consumption while also navigating the turbulence of the next decade.

Introduction

The ASEAN macro-context

The world's next economic powerhouse. With a GDP growth rate that is third only to India and China, ASEAN is expected to grow by an annual 4% over the next decade, making this region the world's fourth-largest economy. By 2030, ASEAN's GDP will stretch to $4.5 trillion and the population will reach 723 million. One in six households entering the world's consuming class will come from ASEAN. Five million people will move into cities every year. Urbanization will sustain through 2050 and extend to Tier 2 cities.

As these developments suggest, the dynamic ASEAN states are on the verge of becoming a massive consumer opportunity close behind China and India (see the World Economic Forum reports, Future of Consumption in Fast-Growth Consumer Markets: China, 2018 and India, 2019). However, while the region's huge population and powerful economic momentum offer great potential, there are a host of complicating factors. Among the fundamental issues are the absence of a common currency, no open borders and, despite many recent ASEAN trade advances, each country maintains separate regulations.

Understanding the basics: ASEAN's three economic groups. The 10 member states represent a wide disparity in the levels and speed of development; it is thus best to view them in three groups. At one end of the spectrum are the three developed nations: Singapore, Malaysia and Thailand. Singapore is the region's most developed economy, with a GDP per capita similar to the US. The Singaporean population is fully or almost fully urbanized, banked and online; the country ranks second of 190 countries for ease of doing business and is one of the least corrupt in the world.[5]

On the other end of the spectrum are the four frontier economies of Cambodia, Myanmar, Laos and Brunei. The first three countries have massive prospects for growth but significantly smaller economies, with GDP levels below $100 billion and GDP per capita below the ASEAN average of $4,747. They have the same dominant religion – Buddhism – but differences remain. For example, 76% of Cambodians use the internet, roughly double that of Myanmar and Laos.[6] While Brunei has a high GDP per capita fuelled by the national oil and gas industry, the sultanate resembles an emerging market socio-economically. In a frontier nation like Myanmar, only 31% of the population live in urban areas, 26% have a bank account and 38% use the internet. The country ranks 165th and 132nd in ease of doing business and corruption respectively.

In the middle lie the three emerging economies of Indonesia, the Philippines and Viet Nam. This is where 70% of the ASEAN population lives, contributing to more than 50% of the region's GDP. Emerging ASEAN will be the engine of growth over the next decade, driving 98% of the increase in working population and contributing 70% to 80% of the new consumer population. This explosion of the working middle-class will materially boost productivity and spending to the point that the GDP growth rate of emerging ASEAN is expected to overtake China (see **Figure 4** in Appendix). These fast-growth consumer markets will be the focus in this study.

In addition to being heterogeneous, geography poses challenges to growth in many ASEAN markets. The Indonesian and Filipino populations are spread across 17,500 and 7,100 islands, respectively, making distribution a major obstacle in industries as diverse as communications, financial services and consumer products.

Four mega-forces will drive the future of consumption in ASEAN

Despite the market differences and geographic challenges, ASEAN is a tremendous consumer opportunity, with four mega-forces determining the pace and scale of the region's growth (**Figure 1**).

1. **Favorable demographics**

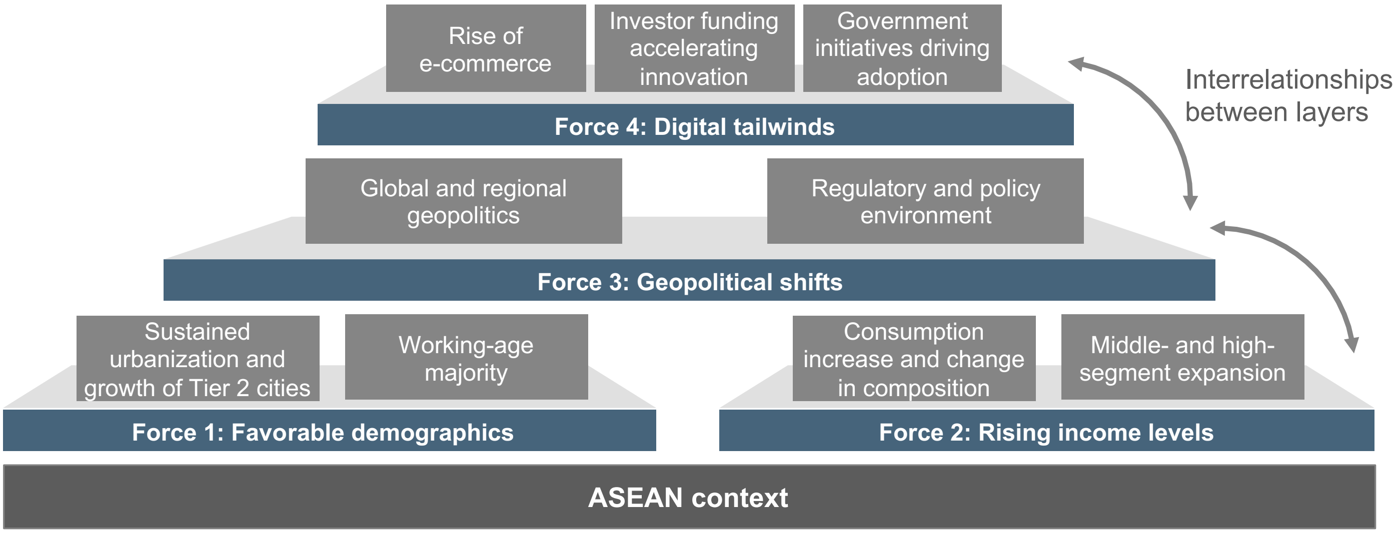
A young, tech-savvy population, entering the workforce and migrating to big and small cities, will spur consumption in Indonesia, Viet Nam and the Philippines.

Emerging ASEAN is young and increasingly urbanized. In 2030, the median age in the Philippines will be 29 while Indonesia's will be 32. Young consumers are tech-savvy, likely to discover products on social media, comfortable spending online and concerned about health and sustainability.

ASEAN's working-age population will increase by 40 million by 2030, with Indonesia contributing more than half of that army of workers. By comparison, China is expected to reduce its working-age population by 30 million in the same period. Labour costs in emerging ASEAN are significantly lower than in many other parts of Asia. Consider that Viet Nam's labour costs are 50% that of China. Moreover, there is headroom to increase productivity. Annual productivity in Viet Nam is $4,000 per employee compared to $128,000 in the US and $95,000 in Singapore.[7] The combination of an expanding workforce, low labour costs and the potential for productivity gains is highly attractive for investment and growth.

Meanwhile, ASEAN populations will continue to migrate to cities at a sustained pace. Through 2050, an estimated

Figure 1: Four mega-forces will drive the future of consumption in ASEAN



5 million people a year will move to urban areas, with the growth extending beyond Tier-1 cities like Jakarta, Manila and Ho Chi Minh City to Tier-2 cities like Surabaya, Pampanga and Can Tho. In contrast, the rate of urbanization in China is decelerating, with fewer people moving to urban areas by 2040 compared to ASEAN.[8]

Other demographic factors also come into play. For example, decreasing household size and increasing female workforce participation will further shape consumer behavior by contributing to an increase in purchasing frequency and boosting demand for convenience.

2. Rising income levels

Income levels will grow annually by 6%-8% in emerging ASEAN, creating economies powered by the middle class.

The highest increase in income will happen in Viet Nam. There, the average disposable income per capita will rise from $2,000 to $4,000 by 2030, growing at an annual rate of 8%. That is twice the rate of the US. By comparison, Indonesia's incomes will grow from $3,000 to $8,000 and the Philippines' from $3,000 to $6,000 by 2030.

By 2030, ASEAN will contribute 140 million new consumers, representing 16% of the world's new consumer class (**Figure 2**). Many of these new consumers will be making their first online purchase and buying their first affordable luxury good. Further fuelling consumption will be a substantial expansion in the number of emerging ASEAN's high- and upper-middle income households, which will nearly double from 30 million to 57 million from 2019 to 2030.

Overall, GDP per capita across ASEAN will grow by 4% annually to reach $6,600 in 2030. As a result, product categories as diverse as confectionery and diapers will soon approach inflection points where consumption takes off.

3. Shifts in global geopolitics and local regulations

Geopolitics and local regulations can be a boon or a bane. They will open the door for foreign direct investments and other opportunities while also creating challenges such as rising protectionism.

ASEAN will become a popular destination for foreign direct investment (FDI) as multinationals rebalance supply chains to diversify geopolitical risk and make the most of low-cost labour. In 2018, FDI inflows reached $155 billion, exceeding China by 1.2 times and India by 3.7 times. With a labour force that is 50% cheaper than China, Viet Nam is well-placed to benefit. To ensure that it can accommodate the growth, Viet Nam needs to continue to invest to develop skilled and semi-skilled labour and build a stronger technological manufacturing base.

However, geopolitics could also be a challenge for ASEAN markets. For example, the European Union's ban on the use of palm oil to produce biofuels has had a negative effect on ASEAN palm-oil producers.

Another big question mark involves regulatory challenges. Protectionist measures make it difficult for foreign companies to operate in places like the Philippines. Such regulations led the country's Ease of Doing Business rank to fall from 95 to 124 (from 2015 to 2019). However, regulations are now beginning to shift in favor of commerce. In 2019, Indonesia removed a regulation requiring 80% of modern trade sales to come from domestic products and the anti-corruption commission has been actively cracking down on corruption. Viet Nam drafted a law to remove the 49% foreign ownership limit on listed companies.[9]

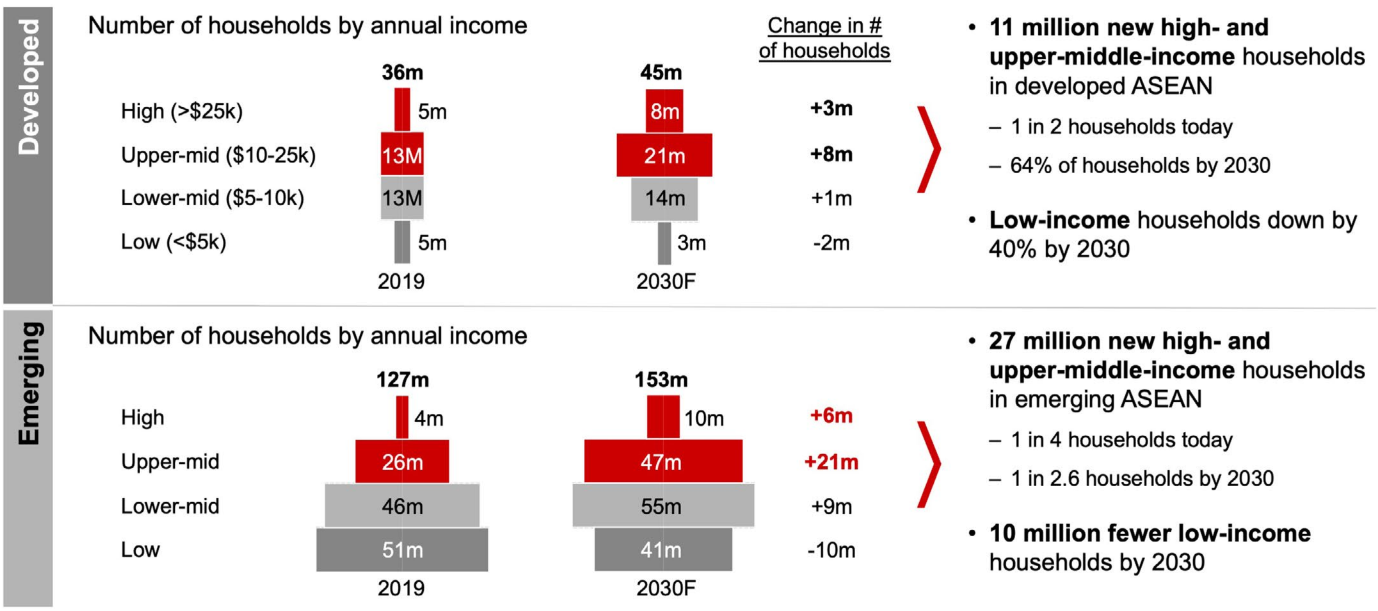
4. Digital tailwinds

ASEAN's digital economy will become truly inclusive, as consumers adopt digital, investors fund innovative digital businesses and governments support key digital transformation programs.

Digital tailwinds that propelled development in much of the rest of the world will be felt across this region. Digital adoption is reaching an inflection point, fueled by consumer behavioral changes, investor funding in digital innovations as well as government programs to accelerate the digital transformation process (**see Figure 5 in Appendix**).

Yet digitalization will come at a cost. While entirely new jobs will be created, automation will reduce employment in labour-intensive sectors, reducing wages and displacing low-skilled jobs. ADB estimates that up to 30% of activities in 60% of occupations could be automated. By comparison, high-skilled jobs will be in demand and at least 43 million people will need to be reskilled in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam (collectively, "ASEAN-6") by 2030.

Figure 2: Household income profiles will change across developed and emerging ASEAN



Intra-ASEAN: Divergence and convergence points of growth drivers

ASEAN markets are heterogeneous and held together with a centrality of political common sense. They reflect varying stages of economic, political and regulatory maturity, and openness to foreign investment. Moreover, there is diversity in languages, historical influences, cultural norms, local tastes – all requiring businesses to tailor approaches and offerings, while adding complexity in building regional businesses.

While the four mega-forces will affect the entire region, there is no "single ASEAN". Growth drivers will play out differently based on demographics and other macro factors. For example, while Singapore's population is ageing, rising wages and a shift to high value-added services such as FinTech will drive growth. Indonesia will benefit from a large domestic consumer class with rising disposable income levels and growth in Tier-2 cities. Growth in the Philippines will continue to be supported by overseas remittances and services industries, and further boosted by investment in manufacturing and public infrastructure industries. Viet Nam's growth will accelerate from exports, with an emerging focus on e-commerce, EdTech and modern agribusiness. The frontier markets of Myanmar, Cambodia and Laos will embark on their path to economic prosperity supported by opportunistic investments from North-East Asia (see **Figure 6** in Appendix).

Unlocking growth will require a tailored strategy that considers each market's unique qualities and preferences, with products and formulations adapted to each country. ASEAN member states may share many commonalities, but each market will evolve differently.

To understand consumption trends and their evolution over the next decade, proprietary consumer research by Bain focused on Indonesia, the largest nation and consumer opportunity in the region.

*Indonesia represents roughly 40% of ASEAN GDP and population today. Based on primary and secondary research on the macro-context and growth drivers, six major consumer archetypes have emerged (**Figure 3**). These archetypes represent, to varying degrees, the consumption patterns and sets of preferences that apply across all ASEAN countries.*

Figure 3: Six major archetypes will define consumption behavior in Indonesia

		Profile	Lifestyle	Preferences	Consumption today	Trend towards 2030
Urban success	 Bayu and Putri	40-year-olds, both working at large professional services firms in Jakarta	Bayu and Putri are married with two children. They live in a semi-detached house, dine out often and take vacations twice a year. Highest estimated spend of $7,000 a year per capita.	Omni-channel, open to global brands, highest preference for healthy and sustainable products	33%	↗
Emerging middle class	 Reza	30-year-old mechanic who moved to a Tier-2 city for better job opportunities	Reza is married with two children. He works hard to provide an enjoyable life for his family and ensure his children get a better education than he did.	Buys local brands, holds traditional values, low awareness of sustainability	26%	→
Young and striving	 Ahmad	High school student who has moved to a Tier-1 city for better education	Ahmad usually eats at home or at the canteen and spends his time smoking, hanging out with friends, or playing games on his mobile.	Spends the most time on mobile; open to new technologies and consumption models; prefers local brands	14%	↘
Rural senior citizen	 Budi	53-year-old part-time worker who has lived in Maros, South Sulawesi, for most of his life	In his younger days, Budi worked in a mining site. Now, he is an odd-job man and mostly buys day-to-day necessities like groceries and petrol. Lowest spend of $3,500 a year	Highest preference for traditional values, lowest rate of mobile use and access	11%	↘
Urban homemaker	 Indah	38-year-old, middle-income stay-at-home mother in Bandung (Tier-1)	Indah manages the household purchases from food to energy bills. She enjoys indulging in beauty and personal-care products.	Highly influenced by TV; enjoys access to mobile data and prefers local brands; open to new technologies and consumption models	10%	↗
Rural homemaker	 Dewi	33-year-old, low-income stay-at-home mother in Deli Serdang (regency)	Dewi operates a warung that sells grocery items while her husband works in the field. She spends mostly on household necessities and personal-care products.	Influenced by TV; prefers local brands, traditional values; less open to new models; less concerned about sustainability than her urban counterpart	6%	↘

Eight consumption themes to 2030, some accelerated due to COVID-19

These four mega-forces will deliver a new ASEAN consumption picture, with confident, informed and explorative millennial and Gen Z consumers shaping future consumption trends and behavior. They will leapfrog consumers in many larger economies in digital adoption. They will strive to be modern while preserving local identity. Millennials and Gen Z consumers will demand convenience, well-being and sustainability, and seek value for money as well as integrative experiences across channels.

Eight consumption themes will have major implications for both business and society in ASEAN, which will need to develop new capabilities as detailed in subsequent sections

1. Consumer spending will double, driven by ASEAN's middle-class boom

2. Boundaries of premium and value shopping will blur

3. Digital ubiquity will become the new normal

4. Technology-enabled platforms will tear down socio-economic walls

5. Local and regional competitive winds will prevail

6. Shoppers will move beyond omni-channel to expect retail omni-presence

7. Convenience will be the new currency

8. Health of people and the planet will be non-negotiable

1. Consumer spending will double, driven by ASEAN's middle-class boom

As the middle-class population expands to include 70% of the ASEAN population by 2030, total consumption will double across the region, with the Philippines experiencing the highest consumption growth. Pan-ASEAN, grocery retailing will remain the largest beneficiary.

ASEAN's middle-class is exploding to the point that it will include 67%[10] of the region's total population by 2030. In Indonesia, the largest consumer opportunity in ASEAN, roughly 75% of the population will be middle-class, contributing to 72% of all spending in the country. High-income household spending will also grow in Indonesia, from 9% to 25% of overall consumption. Across ASEAN, roughly 1 million households could rise above the poverty threshold of $1,000 in annual household income[11].

ASEAN's booming middle-class will result in **three major implications:**

- **Total consumption will double** ASEAN consumption will grow by 2.2 times to nearly $4 trillion by 2030, compared to China at 1.9 times and India at four times[12]. Indonesia's projected $1.3 trillion will represent one-third of ASEAN's consumption, making it the region's largest consumption opportunity.

- **The food and beverage (F&B) category will be the biggest beneficiary:** ASEAN consumers will continue to spend more in F&B than in any other product categories. By 2030, F&B spending will represent 30% of ASEAN consumption – up to 40% in the Philippines and Viet Nam.[13]

- **Look for growth in electronics, education and transport:** Other sectors expected to experience high-speed growth at 7%-8% annually include consumer electronics, education and mobility options.

How COVID-19 changes category shopping behavior

The COVID-19 outbreak launched a health and economic crisis in early 2020, with major implications for the post-pandemic world. In South East Asia , GDP growth for 2020 has been adjusted downwards to 1% (ADB, April 2020), from 5% (December 2019). The pandemic has affected key sectors such as travel and retail, disrupted supply chains and weakened business and consumer confidence.[14]

Certain categories will be more severely impacted than others, based on five factors: location; relevance for home; accessibility from home; occasions at home; and health and well-being benefits. Certain "disaster-preparedness" categories and daily essentials will see a temporary spike, while categories such as out-of-home food and beverages and luggage or travel accessories will likely see a large dip and a long recovery runway.

Consumer behavior will also change in non-reversible ways. For categories such as healthy snacks, food delivery and hand sanitizers, higher demand is likely to continue beyond the outbreak, even post-recovery.

Assuming the pandemic is contained within the year, the region is projected to return to 5% growth in 2021.

2. Boundaries of premium and value shopping will blur

As consumers rise up the income ladder, spending on special treats and first luxury products will take off. Consumers will be willing to pay a premium for convenience, well-being and personalization. However, with 62% of high-income consumers still rating price as one of their top purchasing criteria, consumers will also remain value-conscious.

Consumers are simultaneously moving in two directions – embracing premium goods while retaining their preference for value. Consumers across income bands define value differently, and a household's approach to spending typically changes as it moves up the income ladder. This is apparent across three levels of product hierarchy: basic products; special treats; and first luxury products.

Basic products include such necessities as groceries, transport and personal care. Based on Bain's survey of Indonesia's consumers, high-income consumers typically spend two times more than low-income consumers on these products. In 2030, basic products will represent around 80% of consumption. Special treats such as dining out, entertainment and travel will make up roughly 15% of consumption in 2030. Luxury purchases will represent 5% of total consumption in 2030 (see **Figure 7** in Appendix).

As more consumers begin to explore premium purchases, business will be required to realign product portfolios better to serve the evolving needs of first-time consumers. There will be **two critical imperatives for business:**

- **Personalization as a key part of the consumer experience:** Insurgent brands are aggressively delivering on real-time personalization. For example, fashion retailer Love, Bonito launched a "Book-a-stylist" service[15] in which fashion consultants, or "Style Ambassadors", provide one-on-one assistance. Another example is mobility and food-delivery company Grab. Shoppers opening the Grab app to order food see a customized landing page, with recommendations based on previously searched or ordered items.

  In the years ahead, a growing majority of ASEAN's middle-class consumers will be willing to pay a premium for personalized experiences: 74% of respondents indicated they prefer experiences to material possessions, while 56% of respondents indicated they prefer lifestyles that embody their own style.

- **Products and services offering value for money:** Even as ASEAN shoppers shift towards premium purchases, they continue to be value-conscious. When asked to rank the top three things they care about while purchasing across a range of categories, more than 60% of upper-middle and high-income respondents still rate price as a top purchase criterion. That group swells to 80%-95% for consumers of niche categories such as baby care. In developed ASEAN, grocery discount retailers should grow by an annual 41% over the next five years.[16] In comparison, traditional and modern trade retailers are projected to grow at a relatively modest 3%-5%.[17]

3. Digital ubiquity will become the new normal

Millennials and Gen Z will account for 75% of ASEAN consumers, spending seven to eight hours on the internet each day across devices, with four to five hours on social media. The unprecedented abundance of information and choice will boost repertoire behavior – 65% would switch brands if their favorites were not available – enabling growth of insurgent brands, which are able to innovate more rapidly.

By 2030, about 575 million people, or roughly 80% of the ASEAN population, will be online. In Indonesia, the number of internet users should rise to 262 million, with internet penetration reaching 92% in urban areas and 82% among the rural population. Today, ASEAN consumers spend up to 1.2 times more time online than the global average.[18] That amount of time will rise further as their digital lives expand dramatically with such advances as smart homes, tele-health and social commerce. As digital ubiquity takes root, **two big areas for consideration** emerge:

- **Tapping into millennials and Gen Z, the biggest segments for digital consumption:** Digitally native and connected millennials (1981-1995) and Generation Z (1996-2012) will be the driving force for digital consumption. Combined, they will account for 75% of ASEAN consumers and 70% of Indonesian consumers in 2030. The behavior patterns of these younger consumers provide a glimpse into the future. While they still rely on traditional sources of information such as friends and family, television and trends in nearby big cities, digital sources hold much greater influence. For Gen Z and millennial survey respondents, social media ranks second and third as a source of information. For Gen X and older, it ranks ninth. Gen Z also clocks up to two times more mobile screen time than older generations and spends three to seven times more hours on gaming activities.

- **The abundance of choice will accentuate repertoire shopping behavior.** Digital ubiquity comes with a caution for brands. The widespread access to information, abundance of choice and propensity to search online will contribute to an increase in repertoire behavior – a desire and ability to switch brands easily. Fully 90% of digital consumers surveyed searched online for a product or service to buy.[19] Across six types of grocery and personal care products, 65% of consumers, on average, say they would switch brands if their favorites were unavailable.

4. Technology-enabled platforms will tear down socio-economic walls

As ASEAN consumers leapfrog in digital adoption, it will enable the underserved to access basic services such as healthcare, education and financial services. Mobile banking penetration is expected to reach levels 1.3 times that of the US.

Technology will accelerate three big shifts: a disintermediation of old hierarchies and world orders, homogenization of young and urban consumer, and serving of the underserved.

Widespread social media has upended traditional hierarchies by dissolving the control of mass communication and creating a platform for equal access of voice, opportunity and information. Also, millennials and Gen Z are consuming similar information and connecting with global communities online. This will empower large, digitally native consumer category leaders across the region that focus on young consumers as well as a global, "instant culture" where young people connect quickly with a trend or an identity and then move on just as quickly. Finally, digital will lower the cost to reach, acquire and serve rural and lower-income populations, often with new consumption models such as subscription-based or sharing economies.

Technology will open four major opportunities to enable new models of consumption.

– **Leapfrogging to e-wallets will help underserved consumers:** Alternative digital payment methods lower entry requirements and provide access to the previously unserved. In modern-day Indonesia, 65% of the population lack basic bank accounts and 87% have not borrowed or used credit cards in the past year. There are four main obstacles: high income requirements; high monthly account administration fees; a scarcity of physical bank branches in rural areas; and low levels of financial literacy. About 61% of survey respondents say they lack the knowledge to use financial products.

  In comparison, digital banks and mobile wallets typically require neither minimum income levels nor a credit history. These FinTech companies assess credit risk through consumer behavior data. Their agent networks also extend credit to rural communities and connect to traditional businesses. As a result, e-wallets are expected to grow 9% annually through 2030 compared with an estimated 2% growth for traditional bank accounts in Indonesia. Urbanized rural consumers will leapfrog to e-wallets at three times the current adoption rate by 2030. That pace is being set by innovative players such as Jenius and Digibank (in digital banking), GoPay and Ovo (in mobile wallets), and Kredivo and Akulaku (in credit).

– **Acceleration of e-health:** Digital healthcare platforms provide quick and affordable access to congested and rural areas. Telemedicine services include teleconsultation with a network of doctors through video, voice calls and chats, access to pharmacies to order medicine, as well as other online health and wellness services. For example, Halodoc has gained strong traction in Indonesia, with roughly 2 million users, a network of 20,000 doctors and 1,000 pharmacies. In the Philippines and Viet Nam, players such as Kitika and Doctor Anywhere offer similar services.

– **Penetration of online education platforms:** Online education platforms provide greater access to local and global universities. IndonesiaX is an online education platform that collaborates with local universities and the Indonesia Stock Exchange to offer free online courses. Students may obtain a certificate by passing a test and paying a nominal administration fee. In the Philippines and Viet Nam, similarly affordable and accredited online education programs are offered through institutions like AMA University and Topica.

– **Emerging business models including subscriptions, renting and sharing:** With Gen Z and millennials becoming the leading consumer class, businesses will need to embrace new consumption patterns and provide a wider and more flexible set of options. In addition to serving these consumer segments, renting and sharing models will also allow businesses to pursue a more sustainable supply chain. Founded in 2016, Style Theory's subscription-based clothing rental service gained more than 20,000 active users in Jakarta in its first year.

iFlix, a Malaysia-based video on-demand service with a focus on local content, offers a monthly subscription at a third the price of Netflix. It has formed a partnership with Telco PT Telkom to broaden its distribution and marketing network while appealing to a local market. Similarly, Spotify works with leading telecoms to allow consumers to pay for the music service with phone credits. It also offers an array of alternative services such as weekly packages for budget consumers and Spotify Lite for rural areas.

5. Local and regional competitive winds will prevail

Competitors for consumers will come from multiple fronts, including Asian brands favored by ASEAN consumers, insurgents, and "frenemies" who are companies' strategic partners but also potential competitors. Perception of being local will be increasingly critical as local brands capture share from multinationals in emerging ASEAN.

In the ASEAN market, competitors of the future will fall under five broad categories:

- Local or regional scale players with ASEAN as their primary battlefield
- Multinationals that treat ASEAN as a must-win market
- Asian brands favored by ASEAN consumers
- Disruptive new competitors or insurgent brands
- "Frenemies" – strategic partners and potential competitors at the same time (such as e-commerce marketplaces)

Two consumption mega-trends are emerging. Local and regional brands are outgrowing global players while consumers prefer Eastern brands and identities. The competitive scenario and these consumption mega-trends result in **two key implications** for companies selling to ASEAN consumers:

- **Creating a perception of being local will be critical to appeal to ASEAN consumers:** In Indonesia, 60% of urban affluent consumers and 80% of rural, older consumers prefer local brands to global brands. This is especially true in F&B categories. The preference is slightly more nuanced in categories like personal care. For example in Indonesia, the top brand Rinso is global (Unilever), but the next most popular brands are local: So Klin and Daia. This preference will fuel growth for local companies, which have been steadily winning share from multinationals. Across emerging ASEAN, local brands are expected to outperform multinationals in annual growth rates by 1%-3% across a range of categories, from packaged food to home care.

  Localization – or the perception of being local – will be increasingly critical to appeal to ASEAN consumers. Overall, local companies have outperformed multinationals by 9% annually over the past five years in the hot drinks sub-category. Meanwhile, Indonesian donut brand J.Co outperforms Dunkin' Donuts and Krispy Kreme by tailoring its products to local tastes and preferences.

- **Exploring opportunities for partnership with Eastern, culture-specific and insurgent brands:** In specific categories, brands from South Korea, Japan and China are also growing in influence at the expense of Western brands. Beauty trends from Japan and South Korea (J and K-beauty, respectively) are driving beauty and skincare sales. Sephora Indonesia's website has a dedicated K-pop beauty banner, while Duty Free Philippines introduced K-beauty and cosmetics products in 2019 to target the growing market in the Philippines. In Indonesia, Korea's Sulhwasoo and Japan's Shiseido are capturing share in premium skincare from the US and France. In Viet Nam, the leading beauty and personal-care importers are Korean and Japanese –capturing 22% and 13% of the market respectively.[20] Chinese companies lead in smartphones, taking the bulk of market share, from 57% in the Philippines to 74% in Indonesia in the third quarter of 2019.

  Within Indonesia and Malaysia, Islamic branding is taking off, raising the potential for the region to become the global centre of Muslim brands. Brands such as Wardah have gained significant traction in the market by offering Muslim products. Wardah appeals to young Indonesian women through halal-compliant cosmetics. It grew 20%-50% in annual sales to capture roughly 30% of the domestic cosmetic market share by 2018.[21] To capitalize on such preferences, Western companies may need to explore creative partnerships with Eastern and innovative brands.

6. Shoppers will move beyond omni-channel to expect retail omni-presence

Omni-channel retailing will prevail across ASEAN in 2030. While e-commerce will grow the fastest, reaching 13% penetration from 3% today, offline channels will remain large and relevant. Consumers will switch between online and offline throughout their consumption journey. As a result, social media, e-commerce, everyday apps and offline channels will converge into an integrated platform.

The ASEAN retail landscape in 2030 will remain highly diverse and fragmented, with small-format retail such as traditional trade and convenience stores capturing 40% to 50% of sales. E-commerce will be the fastest growing channel. It will grow 21% annually, with penetration expanding from 3% to 13%, approaching the current US penetration rate. Entertainment, consumer electronics and apparel will achieve the highest levels of online penetration, with grocery and apparel expected to grow the fastest. Non-retail online spending, including such areas as digital financial services is expected to grow from 6% to 16% in Indonesia.[22] Overall, online spending should grow 18% annually, three times faster than offline spending.

The steady growth in online consumption and endurance of physical retail means that shoppers will come to expect retail omni-presence, with **two major implications:**

– **Traditional trade will remain relevant and will evolve with new service offerings:** Traditional trade still flourishes across ASEAN. Throughout the region, there are estimated to be more than 5 million of these tiny family-owned businesses or sundry shops. They are called warung in Indonesia, Sari-sari stores in the Philippines and mamak shops in Singapore. In 2030, traditional trade will continue to be essential, offering proximity, familiarity and a form of credit, especially in rural and lower-income neighbourhoods. However, they will slowly lose market share, falling from roughly 22% today to 16% in 2030.

  Traditional trade will evolve to offer services beyond retail, such as digital financial services (including e-wallet top-ups, microloans and mobile credit purchase) and last-mile delivery for e-commerce. This evolution will be accelerated as B2B players such as Bukalapak, Warung Pintar and GrowSari provide value chain support. For example, they enable inventory management and replenishment through mobile applications, connect stores directly to manufacturers and provide digital POS and Wi-Fi connectivity.

– **Channel roles will be blurred as consumers switch between online and offline:** Today, 80% of shoppers compare prices online,[23] yet 90% still purchase offline. ASEAN shoppers go online to compare prices, save time and make purchases around the clock. They prefer physical stores to be able to touch and feel a product, validate its authenticity, as well as for the shopping experience.[24]

  A typical consumer journey begins in discovery, when consumers gain awareness of a brand through advertisements before considering the purchase by comparing prices or searching for reviews. The second phase is the transaction – making the purchase and potentially recommending or giving feedback on the product.

  Today, there is a clear distinction between discovery and transaction channels. Consumers look to a range of media for information and entertainment, but they turn to e-commerce platforms or retail stores to transact. In 2030, these roles will blur as social media, e-commerce, everyday apps and offline channels converge. E-commerce will offer entertainment and features, making online shopping more social and content-driven than the purely transactional channel it is today.

COVID-19 is radically accelerating the digital future

The pandemic has forced a sudden and seismic economic shift from physical to digital. Many consumers are making digital purchases for the first time and existing consumers are spending more time online. At the same time, offline retail is taking a hit.

Consumers that were previously more resistant to digitalization, such as older generations, are making their first online grocery purchases to buy dry and fresh produce for their families and starting to enjoy the convenience of home delivery. This is the first step to triggering an irreversible change in channel preferences, opening new consumer markets and increasing the share of wallet from existing e-commerce consumers.

Direct-to-consumer channels will boom as consumers seek greater connectivity online, as well as to show their support for local businesses

In the face of supply constraints, liquidity crunch and competition from e-commerce, the long tail of traditional trade will suffer. Small, fragmented retailers across emerging ASEAN work on credit and rely on foot traffic. Many of these retailers will run out of cash and are unlikely to recover if companies, governments and other agencies do not extend support.

7. Convenience will be the new currency

ASEAN consumers value convenience over privacy and are willing to share their data across many applications. Voice and experience-based (AR and VR) influence, search and buying will grow to provide additional convenience to consumers.

Convenience means different things across ASEAN. In highly congested Jakarta, it could mean being able to order a meal via Go-Jek without having to step out into the humidity and traffic. In motorbike-heavy Ho Chi Minh City, it could mean being able to buy a takeaway meal without having to dismount. In rural areas throughout the region, it could mean procuring a sack of rice without having to cycle to the nearby town.

In all examples, convenience will be king; convenience is one of the top five criteria for purchase decisions across categories for all respondents – and a top three criteria for high-income consumers. Two of three consumers would be willing to give up data privacy for convenience. On average, ASEAN consumers share their data with 30-40 different mobile apps, engaging with seven to eight of them daily, all for the sake of increased convenience.

As a result, **two key opportunities** emerge:

– **Increased demand for voice-controlled functions to enable convenience**: As social commerce grows and messaging apps play a more important role in the purchasing journey, demand for voice-controlled purchases will rise. ASEAN consumers will embrace new opportunities to hasten the consumption journey. Already, 48% of consumers in Indonesia and 41% in Viet Nam use voice-controlled functions, compared with 35% in the US and the worldwide average of 39%. ASEAN consumers also use voice-based functionality for content consumption, with YouTube and online news websites like Okezone taking top spots in the lists of most visited sites on Alexa. Auto-replenishment options and augmented and virtual reality will also improve convenience.

– **Introduction of "super-apps" to provide a one-stop shop, leveraging data to extend to multiple services:** "Super-apps" are platforms that provide access to and gather data across multiple "everyday use" verticals, such as messaging, e-commerce, food delivery, ride hailing and basic financial services. The mobile application landscape in ASEAN is highly fragmented today, with many apps using loyalty programs to retain consumers. There is huge potential to streamline the consumer experience with a "super-app" that provides access to a wide range of services via a single landing page – similar to the WeChat model. With access to data across multiple verticals, super apps can offer personalization, better experience and quality, and new ways of credit scoring.

8. Health of people and the planet will be non-negotiable

Sustainability is a growing requirement across ASEAN markets, with emerging ASEAN leading the efforts. While the region now lags behind global standards, demands will accelerate in the next decade as consumer and institutional awareness grows, along with a willingness to pay.

The environmental sustainability movement is becoming evident in ASEAN. Fully 80% of survey respondents claim they value sustainability and have made lifestyle changes to be eco-friendlier, up to 90% among the urban affluent. Consumer interest will increase further as sustainability becomes more affordable and prevalent.

In tandem, ASEAN consumers are joining the global health and wellness movement. In Viet Nam, 90% of consumers read food labels and say they are willing to pay more for healthy food. In Indonesia, 75% of the urban population aim to eat a healthier diet and 58% want to exercise more.

Two key calls to action can accelerate ASEAN consumers' journey towards environmental sustainability and personal health:

– **Ensure widespread and consistent consumer awareness and motivation for healthy and sustainable living choices:** The pursuit of healthy and sustainable living is inconsistent across ASEAN. One study found that 90% of Vietnamese and Filipino consumers are willing to pay more for sustainable products. However, only 20% of Thailand's urban population agrees that protecting the environment is a key priority.

– **Accelerate the current slow but steady rise of sustainability efforts in regional and local business operations:** Many ASEAN companies have been slow to implement sustainability programs, citing such issues as low customer willingness to pay, short-term financial trade-offs and additional costs to raise standards in operations.

However, some ASEAN companies are starting to respond to the sustainability imperative. For example, to encourage environmental consciousness, GoFood promotes 1,000 outlets across Indonesia that charge for plastic cutlery. The region also has seen a rise in new business models for renting and swapping fashion. In addition, multinational consumer products companies that are actively defining their sustainability agenda and getting ahead of consumer sentiment are reaping the rewards. Danone has made a concerted effort to ensure its brands uphold its "One Planet. One Health" corporate-level manifesto. The company's purpose-led brands are growing three times faster than the rest of Danone's portfolio.

COVID-19 is making sustainability harder in the short term but may open new doors

The pandemic could trigger a reversal of sustainability trends in the short term, with consumers increasing demand for food delivery and disposable packaging, as well as rejecting reusable grocery bags as unsanitary. ASEAN demand for sustainable products is likely to continue to lag as consumers struggle with affordability. Cash-strapped governments and businesses across ASEAN are likely to put sustainability goals on the backburner as they focus on jumpstarting the economy.

However, there may be tailwinds that are longer lasting. For example, telework and virtual meetings are showing organizations that they can reduce travel, allowing employees greater flexibility and reducing air pollution. Companies are also focusing more on the health and well-being of employees and are under pressure to shorten supply chains for greater efficiency.

Overall, these eight trends help us to understand the defining characteristics of the ASEAN consumer in 2030. They will mimic how urban, middle-class millennials shop, responding to similar influences across income bands via digital, trends from nearby cities and the evolving role of traditional trade. In addition, consumers will be online, albeit with different behavior and preferences. Malaysian and Singaporean consumers prefer transactional interactions, while other ASEAN markets prefer the two-way engagement of social commerce. ASEAN consumers will care more about value than brands. They will expect to be served across all channels, with similar demands on price, convenience and service across online and offline, modern and traditional retail. Finally, they will champion local – in particular, local cultures, lifestyles and food.

As we detail in the following sections, business and policy-makers will be required to take specific actions to capture the evolving ASEAN growth story.

Business capabilities required for the firm of the future

These eight trends explain the changes coming to ASEAN and how new consumer classes will rapidly emerge as incomes continue to rise and access spreads to rural and low-income communities across the region. Despite the huge new opportunities for global, regional and local business, it will be more challenging than ever to build winning brands. The most successful companies will be those that do the best job of leveraging big data for consumer insights that help them rapidly serve changing consumer and employee needs. Firms of the future will be required to build **seven critical capabilities, known collectively as the seven Rs:**

1. Reset vision, mission and goals

Companies will need to lead with "future-back" thinking and set a bold growth ambition for ASEAN. This will require developing a multi-year plan for the region with a hyper-local approach to win market by market.

– **Lead with a future-back vision:** Progressive organizations are taking a "future-back" view by envisioning where the industry is heading in 10 or 20 years and working on the steps required to position their company to compete in the long term. Setting a vision will require leaders to wrestle with challenges in ecosystems, data, competition, consumer needs, technology and costs, and sustainability. For example, as ecosystems shift, businesses will need to think through how to invest in attractive profit pools and address chokepoints of the future ecosystem.

Illustrative case: HelloFresh is a subscription-based meal-kit delivery system. The company delivers boxes of recipes and the exact amount of fresh ingredients needed to prepare the recipes at home. Meal kits have grown into a more than $5 billion market over nine years.

– **Adopt a hyper-local growth strategy:** There are different ways to scale in ASEAN, but the most successful ones consistently take a hyper-local approach, moving beyond short-term plans towards multi-year goals to ensure sustainable and scalable growth.

Illustrative case: Grab launched as a regional company from day one, expanding across six countries over two years. It developed a deep understanding of the markets by investing heavily in local talent and partnerships. For example, Grab teamed up with durian farmers in Malaysia to deliver the fruit across Malaysia and Singapore via GrabDurian.[25]

Delivery company Lalamove took a different approach by pacing its expansion, scaling across the region only after turning profits in several cities. To ensure end-to-end experiences are distinct in different markets, Lalamove separated product and technology teams for each market.

2. Realign offerings to the new ASEAN consumer

Companies will learn from insurgents about the best ways quickly to address real, unmet consumer needs, adopting an agile approach to innovation by testing and learning real-time in the market.

– **Innovate rapidly to address changing consumer needs:** Insurgent brands have made this a cornerstone of their success – they are agile and able to adapt quickly to evolve along with consumers. On average, insurgents can innovate three times faster than big consumer goods companies by testing and learning in the market. Large companies can adopt several lessons from insurgents to increase their speed to market. They can introduce early consumer testing, shorten feedback cycles by displaying live results, or trial in smaller markets or business units, for example.

– **Address white spaces by tapping into unmet needs:** Established companies will be required to continue cultivating new product markets by identifying white spaces. They will need to stretch, reposition and build new brands to boost penetration and consumption in nascent consumer bases.

Illustrative case: In 2010, Asian females consumed nearly one third of the alcohol consumed by males globally, and almost half the levels of alcohol consumed by females in other developed markets. Asian females drank 13 times less beer than the average Asian male. Alcohol beverage companies identified these female drinkers as a large untapped opportunity. They launched a range of products that are lower in alcohol and focused on female social drinking occasions. Diageo's low-alcohol, flavoured malt spirits generated $40 million of sales in its first year. ABInBev's flavoured ready-to-drink items are now a $500 million brand. Similarly, Heineken's non-alcoholic lower-calorie beer has rapidly gained share in the beer category.

3. Reframe consumer engagement as a critical priority

As ASEAN consumers spend more time online and demand greater personalization, companies will need to double down on digital engagement, optimize marketing spending to mirror the omni-channel consumer journey and focus on building two-way communication.

– **Rethink marketing spending to mirror the consumer journey:** Modern consumers are consistently switching between online and offline channels throughout the consumer journey – from awareness to consideration, purchase and connection. Companies will need to identify specific touchpoints across a consumer's lifecycle to decide the right messaging, mix of marketing media and level of investment.

  For example, before purchasing a wellness product, a consumer may browse Instagram to see what her favorite influencer buys. She will then visit Watson's to compare brands and to touch and feel the product before buying on Lazada for the cheapest price. One week later, she will receive direct email marketing from the brand and make another purchase on brand.com. The best companies will double down on digital engagement, continue to invest in traditional channels such as TV and radio, but proactively reallocate marketing budget from scratch based on consumer journeys.

– **Use innovative platforms to increase authentic engagement:** Modern consumers seek two-way interaction with brands. The best companies use innovative engagement tools to build a relationship with their consumers, creating or integrating into a community with a common cause, for example.

  Illustrative case: Unilever's Pond's skincare brand took advantage of the widespread popularity of mobile phones by launching a location-based campaign to educate Indonesian women of the dangers of pollution to their skin. The initiative reached more than 12 million women and generated 5% business growth. Leading diaper brand Moony publishes baby-care articles on Webtretho, Viet Nam's largest women's online community. A third example is Love, Bonito, the largest ASEAN direct-to-consumer womenswear brand, which allows shoppers to vote for their favorite sold-out styles and sizes that they would like to have restocked.

4. Restructure route-to-market and win at point of sale

To cater to consumer expectations for rich and integrated cross-channel experiences, companies will need to create a triple-growth engine, perfecting sales execution across traditional trade, modern trade and e-commerce. The most successful companies will increase penetration and win at the point of sale, both online and offline.

– **Develop new route-to-market capabilities:** The route-to-market capabilities needed to win have changed dramatically and will continue to evolve. Across the supply chain, machine learning and robotics are replacing traditional services such as category management and merchandising. In retail stores, value-added services such as shelf planning are becoming less relevant in a new world in which hundreds of in-store facings are being replaced first by an online screen and then by voice ordering. To develop the right route-to-market strategy, brands will define clear priorities in five areas: market relevance; stakeholder grip; stakeholder voice; digital sources of disruption; and traditional sources of disruption.

  Fragmented trade calls for a triple-growth engine model. Traditional trade will increase reach to rural or low-density areas. Modern trade will reinforce the brand and consumer relationship in cities or high-density areas. E-commerce will increase reach and engagement across both. Within e-commerce, brands may opt for brand.

com or third party (3P) models in which a brand sells on a marketplace, building a stronger relationship with the consumer and retaining greater control over the brand. First-party (1P) models, with the marketplace as a retailer, can help a company test the waters in a new market.

Illustrative case: Increasingly, online businesses are venturing into offline. Online B2B marketplace Alibaba created a retail store, Hema, focused primarily on cross-channel experiences. Consumers can scan barcodes throughout the store to find product information or recipe ideas, pay for in-store purchases using the Alipay mobile platform, and dine in-store by ordering via the app and having their food served by robots.

– **Win at the point of sale, both online and offline:** Winning at the point of sale is about recognizing different strategies for different retail environments, then executing well. In offline channels, this means designing the right KPIs based on shopper insights, seamless in-store execution through effective key account management and embedding changes with reliable tracking and incentive systems. In e-commerce, this process involves product audits to ensure listed products stand out as well as keyword and search optimization and product description, image and category optimization. Also, important: using digital marketing to increase relevant traffic through direct-to-consumer channels.

5. Rethink supply chains

As consumers demand personalization and convenience, supply chains will need to be distributed and flexible, capable of delivering mass customization and high-speed fulfilment at a low cost. A diversified and digital supply chain will help guarantee production capacity and secure a more robust supply pipeline in times of stress and unpredictability.

– **Accelerate mass customization capability by outsourcing or partnering in supply chains:** Today's supply chains can accommodate mass production and small batch customization. However, supply chains of the future will be designed for mass customization, with a lot size of one, to allow companies to serve the growing consumer demand for personalization and rapid innovation. Outsourcing to specialized service providers will thus be key to compete. Certain options for outsourcing or partnering are shared below.

  Original design manufacturers (ODM) offer product design and manufacturing services before handing those products over to another firm for branding. Contract manufacturers (CM) focus on manufacturing or producing components. Supply-chain providers such as third-party logistics players (3PL) provide internal and external logistics services to bring the right product to the right person at the right time.

– **Enhance last-mile delivery capability at a low cost by building, outsourcing or partnering:** By 2030, last-mile delivery will be highly automated and disrupted by new fulfilment innovations such as drones, robots and autonomous vehicles. These innovations will drive down costs of individual trips but increase total system cost due to a higher share of direct delivery. Five primary last-mile delivery modes are in use today; they may be leveraged and are illustrated below.

Illustrative case:

– High-volume deliveries in trucks and vans offered by 3PL providers JNE Express and NinjaVan

– Higher-speed deliveries via cars offered by LalaMove and Lazada Express

– Motorbike deliveries offered by mobility players Go-Jek and AhaMove

– Bicycles or delivery on foot offered by food delivery companies Deliveroo and GrabFood

– These delivery modes will be increasingly complemented by self-pick-up at drop-off points such as SingPost POPStations and FairPrice Click&Collect Lockers, or at Pomelo Fashion's or Watson's retail stores.

– **Invest in supply chain digitalization:** Companies should consider investing in digital capabilities to build supply chains that will best serve them in 2030.

  – Smart automation, which includes capabilities such as 3D printing, predictive maintenance and automated warehousing, will significantly accelerate operations, reduce error rates, increase flexibility and enable customization.

  – End-to-end visibility and collaboration. With real-time transparency of customer and supplier data and product traceability, control towers will be able to increase operational responsiveness and enable faster cycle times.

  – Intelligent supply chains, with advanced R&D management and planning and forecasting capabilities, will reduce speed to market and improve return on investment.

  – Next-generation employees. Training employees to use new tools and technology will improve safety and productivity.

6. Reimagine operating model and talent

The best firms of the future will win through scale and speed, with a lean structure and agile operating model. They will make the required investments to attract and reskill talent.

– **Build an innovative operating model for a firm of the future:** The ASEAN firm of the future will feel different in many ways, including how it pools resources, structures talent, partners to gain critical capabilities, becomes more flexible and scales. Resources will shift from traditional silos to cross-functional teams. Supervisors will move from rigid management towards coaching and leadership. Firms will maximize value throughout the ecosystem, not only within their organization, and operating models will advance from fixed routines to organizational adaptation.

Illustrative case: Unilever relies on a flexible operating model, agile ways of working and an ecosystem to improve speed and scale. A team of five developed the Unilever natural beauty brand ApotheCARE. By leveraging the manufacturing, logistics and sales capabilities of the umbrella company, the cross-functional and co-located core team was able to focus on brand management, product development and innovation. ApotheCARE was developed in a year – three times faster than the market average. Within ASEAN, Unilever's partnership with Lazada allows it to experiment with products online prior to distribution, and to gain data-driven insights to better tailor product offerings.

– **Be agile and tap into small-brand growth:** Companies can apply several different models to become agile and tap into small-brand growth. They can build growth through technology laboratories or research centres as well as rely on open innovation. For example, Vingroup has set up a research centre dedicated to applied internet of things, artificial intelligence, robotics and smart manufacturing in South Korea. Indofood launched a pitch competition, focusing on nutritional solutions, at Jakarta's Block 71, the state-sponsored start-up hub.

  Companies can also grow by investing in accelerators and incubators or through acquisitions and corporate venture capital. For example, GrabVentures provides resources and mentorships to grow technology start-ups in South-East Asia. Mondelez has invested in a "Shopper Futures" incubator focused on the redesign of consumer retail experiences. Tokopedia, an e-commerce platform in Indonesia, recently acquired Parent Story and Bride Story to gain data on consumer needs and purchase behavior during life occasions.

– **Develop a new perspective on the future of work and talent acquisition:** Companies need to redefine their value propositions amid shifting employee expectations. Millennials have different workplace motivations from their older counterparts. Millennials look for collaborative work cultures and thrive with continued learning opportunities and immediate feedback. In contrast, Gen X workers prefer to work independently with minimal supervision. They are motivated by benefits such as bonuses and recognition from their supervisor. There is a clear need to innovate the talent model and develop a value proposition that offers features such as purpose, expert career tracks, flexible work arrangements and differentiated compensation, including stock options and more.

  The nature of work will continue to evolve, increasing the complexity of talent management. Greater connectivity and data sharing will change how jobs are performed. Innovations will change the basis of competition and force companies to rethink which jobs matter most. Meanwhile, advanced technologies will require workers to gain new and different skills – the half-life of employees' skills has declined significantly over the past two years and the trend will continue. In addition, technology is expanding the set of potential partners available to organizations as contractors, freelancers and consultants.

7. Re-envision the role of sustainability

Companies will need to embrace sustainability as the next "digital" and elevate it in their corporate agenda with solutions that create a win-win for business and society.

– **Adopt a step change in the corporate sustainability agenda:** No industry is immune to the disruptions created by the sustainability revolution, which is arriving faster than many companies had expected. A polarization between global and local companies is emerging in ASEAN – global companies are bringing in best-demonstrated practices from their headquarters while local companies are two steps behind.

  Sustainability encompasses a growing list of environmental and social issues. In environmental matters, for example, ASEAN is the world's largest producer of mismanaged plastic waste, generating a staggering 30 times more than the US.

  Yet sustainability will also open doors, shifting profit pools to diverse industries such as alternative meat and electric vehicles. For example, the market value of alternative beverages is estimated at $13 billion and growing 12% annually. Companies will need to embrace sustainability as the next "digital" to be able to tackle upcoming challenges while making the most of new opportunities.

– **Use innovative strategies to create a win-win for business and society:** Companies will need to accelerate sustainability efforts to generate awareness and build the foundations of a circular economy. This will require initial investment as consumer attitudes in ASEAN lag behind other regions and South-East Asia is still low on the experience curve. For example, Singapore recycles only 4% of its plastic waste today. However, as sustainability concerns grow and ASEAN advances on the experience curve, consumers will be more willing to pay and sustainable products will become more affordable, driving exponential growth in consumption.

  Companies like Friesland Campina are leading the charge by creating sustainability wins. The dairy company has boosted the nutritional profile of its milk powder products to combat malnutrition in Indonesia. The issue is significant across ASEAN, where 26% of children under five are stunted due to malnutrition.[26] In Indonesia, this number is 31%.[27] In Indonesia, one out of every three children is unable to grow to full potential, a situation that compromises the quality of talent and income-earning abilities when these children enter the workforce. ASEAN executives can learn from the approaches taken by their global counterparts to address sustainability.

Illustrative case:

– Develop new delivery models and products to reduce waste and increase convenience. Evian achieves both with its in-home water dispenser. Unilever's toothpaste tablets come in a reusable package and replace plastic tubes.

– Introduce product and service offerings that disrupt a company before they find themselves disrupted by others. Tyson Foods, one of the largest food companies in the world, invested in cultured meat start-up Memphis Meats.

– Radically retool operations to become fully circular and traceable. Olam introduced the AtSource sustainability tool to allow costumers to trace products and measure their impact on the environment, communities and farmer livelihoods. Redefine value for the enterprise, placing sustainability at the same level as economic. Sustainability is integral to the identity of US outdoor clothing brand Patagonia, whose mission is "in business to save our home planet". Patagonia focuses on active waste reduction, sustainable procurement and brand activism.

– Build partnerships to reshape the value chain in a sustainable way. For example, the Alliance to End Plastic Waste teams up consumer goods companies with chemical manufacturers and other supply-chain service providers to stimulate market-based solutions on infrastructure, education, innovation and clean-up efforts.

Critical societal challenges and calls to action

As businesses take these necessary moves, the goal of inclusive and sustainable consumption-driven growth will only truly materialize when ASEAN's public and private sectors collaborate to overcome key hurdles. In the short term, the priority is to address COVID-related health and humanitarian issues. In the longer term, ASEAN needs to address systemic challenges in infrastructure, resources, talent, inclusion and regulation. While stakeholders have joined forces to initiate many effective programs, fully overcoming these challenges and boosting consumption to the levels projected for 2030 requires intensifying their efforts with **three critical calls to action:**

1. Create trade and investor-friendly reforms

Governments and NGOs in ASEAN will have increasing influence to shape consumption and enable the digital economy to flourish. This means creating trade and investor-friendly reforms for greater transparency and a more interconnected ASEAN.

– **Develop investor-friendly environments and improve transparency:** To attract foreign investment and promote domestic innovation, governments should build technology ecosystems, positioning select cities as start-up hubs that become incubators for innovation and leverage ASEAN's booming digital economy.

  Case study: China made Beijing a start-up hub with a strategy covering five key dimensions: (1) a tech-savvy culture; (2) availability of tech talent; (3) availability of public and private funding; (4) technology- and innovation-friendly regulations; and (5) state-of-the-art infrastructure. For example, Beijing offered streamlined permanent residency for foreign dependents of Chinese talent and established a new immigration bureau to provide better service to foreigners. The city also set up a $4.5 billion innovation incubation fund, focusing on sectors such as 5G, AI and smart vehicles.

  In parallel, the public sector will need to address the lack of transparency in foreign investments. Most ASEAN member states continue to grapple with inflated bureaucracy and opaque processes. Thailand Plus is an effort to improve the ease of doing business by introducing reforms and tax incentives. This includes amending the Foreign Business Act to simplify visa and work permit application processes for foreign investors. In recent years, Indonesia, the Philippines and Viet Nam have stepped up anti-corruption efforts. Initiatives include establishing an anti-corrupt commission and strengthening the anti-corruption legal framework.

– **Establish regulations for a more inter-connected ASEAN:** Governments need to set regulations for a more integrated and connected ASEAN to protect the region from external shocks. The three areas that would benefit the most are trade, labour and investments.

  ASEAN governments can increase the flow of commerce by reducing tariffs and eliminating non-tariff barriers such as complex licensing, foreign equity and land acquisitions. They can increase efficiency and competitiveness by creating a single Window electronic platform for exchange, including customs clearances, and by sharing best practices.

  They can facilitate the movement of skilled labour through improved legal frameworks and standardized recognition of academic and professional certifications.

  They can integrate financial markets to encourage capital flows, enhance payment connectivity and remove investment restrictions in manufacturing, agriculture, logistics, mining and related services.

  The ASEAN Economic Community (AEC) was established in 2015 to enable a single market and production base through the seamless movement of goods and services, labour and investment across the region. While the AEC has made some inroads, its slow progress has dampened investor sentiments. In a 2019 survey, 3% of businesses polled said economic integration under the AEC is progressing fast enough and 46% are uncertain about AEC's impact.[28]

2. Invest in socio-economic inclusion

To spur inclusiveness, regulators need to invest in education, healthcare and access to financial services. This will not only ensure a human-centric approach for a competitive and skilled workforce but also will help to design and implement a methodology for reducing inequality.

– **Develop the right models for education and skilling for talent retention and growth:** ASEAN will add 40 million working-age people to its ranks over the next decade. The region needs to provide them with the right skills and gainful employment, while reducing the brain flow of the best talent to more developed economies. Within ASEAN, Singapore's SkillsFuture for Digital Workplace provides the adult workforce with opportunities to learn new skills or increase their productivity. Public-private partnerships further facilitate the knowledge transfer. For example, Grab Indonesia is working closely with the University of Indonesia to nurture local talent and prepare Indonesians to take part in the digital economy.

Case study: ASEAN governments can learn from the education system in Finland, which focuses on three key areas: soft skills, cognitive skills and technical skills. Finnish schools use gaming apps to teach children social skills such as trust. To master higher cognitive skills such as critical thinking, statistics and creative writing, schools use phenomenon-based learning. Students learn about what is happening in the world, such as the climate-change phenomenon, by integrating different sources of information and skillsets. To increase technical capabilities, schools introduce information technology (IT) as a core skill alongside maths and science and offer electives in advanced IT and data analysis.

– **Push for financial and healthcare inclusion to improve social equity:** Delivery of basic financial and healthcare services to rural and low-income populations has been an enduring challenge throughout much of ASEAN. The region's hope of increasing inclusion will require a coordinated approach across stakeholders.

For financial services, there are five main hurdles to increasing banking penetration in rural areas: lack of a customer-identification system; lack of data and credit history for traditional credit scoring systems; poor mobile broadband coverage; low financial literacy; and low income (leading to low-revenue potential and a high cost to serve).

While there have been ASEAN initiatives to improve financial literacy, overcoming the many hurdles will require more systemic efforts at scale. Some projects are showing early progress. For example, the Philippines' National Strategy for Financial Inclusion addresses policy, financial education, advocacy and data. The Financial Services Authority (OJK) of Indonesia launched Laku Pandai (branchless banking) in 2015 with four of the nation's largest banks to boost access to financial services in rural areas, engaging more than 125,000 agents.

Case study: Aadhaar is a biometric ID system introduced by the Indian government in 2010. It is considered the world's largest digital-identity program. In 2016, Aadhar was provided with statutory backing to be linked to government services. By 2018, Aadhar had reached 1.17 billion people, 89% of the Indian population, and over seven years it doubled banking penetration to 80%. Government and regulatory backing were critical for its success.

For healthcare services, priorities include expanding access and strengthening the quality of medical care, especially in rural and poor areas. Across emerging ASEAN, the healthcare industry remains underdeveloped. Consider that the largest economy, Indonesia, spends 64 times less per capita on healthcare compared to the US.[29] Public and private investor funding, strategic partnerships and programs to attract healthcare and R&D talent are some ways that stakeholders can collaborate to build healthy cities.

Case study: Telemedicine is an emerging solution to bringing healthcare access to the geographically dispersed and mobile-first populations of emerging ASEAN. In Viet Nam, Doctor Anywhere and Viettel partnered to provide online healthcare services to ViettelPay users. Through Viettel's extensive network coverage, rural communities can access high-quality healthcare through their mobile phones.

Case study: Singapore sets the standard in ASEAN for healthcare – it is ranked second on the Bloomberg Healthcare Efficiency Index and fourth on the Medical Tourism Index globally. The city-state has built a leading hardware-sharing platform, providing policy support for the industry as well as full-service support and facilities. This has been a key ingredient for attracting healthcare talent. The Ng Teng Fong Centre for Healthcare Innovation features expert knowledge networks, labs and tools to facilitate healthcare and industry collaboration. The HealthCity Novena for 2030 initiative aims to build a holistic ecosystem, including health services and research facilities. Singapore also provides easy access to good schools, residential areas and transport to meet the needs of the healthcare community.

3. Upgrade infrastructure for a connected and sustainable future

ASEAN will need to build infrastructure to support and sustain rapidly expanding economic activity. This includes both the physical and digital infrastructure to facilitate connectivity and sustainability.

- **Enhance physical and digital infrastructure, especially in cities:** ASEAN's traffic jams are notorious. Much of the region also suffers from a lack of affordable housing, low security and poor logistics networks. To improve the situation, ASEAN governments are starting to develop smart cities. For example, Thailand 4.0 Environment aims to develop targeted urban areas into becoming the world's most liveable cities. The Indonesian Ministry of Industry has created an integrated roadmap for investing in advanced technologies such as AI and robotics. The roadmap requires collaborative actions among multiple stakeholders that span government and academic institutions, trade associations and industry players.

  Case study: ASEAN leaders can look to efforts in India. The country's Smart City Mission is developing 100 smart cities across the country, before rolling out the program to 4,000 cities nationwide. The first application involves Smart Meters to reduce utility consumption while increasing reliability. The Smart Meter National Programme was established to replace conventional energy meters with smart meters across the nation.

  Smart Mobility for traffic management and parking, New Delhi's Intelligent Traffic Management system, relies on AI to manage traffic and sensors to detect violators. Meanwhile, Smart Building will improve the efficiency of lighting, waste and water management. India is now the fourth-largest market for Leadership in Energy and Environmental Design (LEED) building-sustainability certifications. Meanwhile, the country's Smart Government was created to expand access to education and healthcare via e-Education and tele-health.

In addition to smart cities, ASEAN will be required to ensure high-speed and reliable internet connectivity and the widespread availability of electricity in urban and rural areas.

  Case study: China's experience serves as a model. The country brought 5G to 50 cities in late 2019 in one of the world's largest single 5G rollouts. 5G outperforms 4G in speed, reliability, efficiency and scalability to meet demand for critical and radical new applications. The Chinese government prioritized building out 5G capabilities, provided virtually free airwaves and discounted equipment to telecom operators, and launched R&D for 6G.

  Indonesia recently completed the Palapa Ring project, an infrastructure investment to build more than 35,000km of land and sea fibre-optic cables across the country, bringing 4G internet services to even the most outlying regions. The overarching ambitions of the government are to connect the archipelago, improve digital literacy and invest in the digital economy.[30]

- **Improve efficiency of resource management and promote sustainable development:** To keep up with growing demand, ASEAN will need to develop efficient resource management and alternative sources of energy to decrease dependence on oil and gas. It also must develop an organized effort to address a range of other environmental threats such as the mounting challenge of plastic waste.

  In this context, it will be important for ASEAN to incorporate sustainability development targets into policy planning and accelerate public-private partnerships.

  Case study: The Global Plastic Action Partnership (GPAP), a public-private partnership convened by the World Economic Forum, was formed in 2018 to tackle plastic pollution. In 2019, the Government of Indonesia joined the partnership, setting a target to reduce marine plastic leakage by 70% by 2025. Viet Nam will formally join in 2020; it will work with the Grameen Creative Lab and the Alliance to End Plastic Waste as part of its effort to reduce reduce marine plastic waste by 75% by 2030.

  The Central Java Power Plant, part of Indonesia's plan to boost energy supply, played a critical role in helping the country avoid a national energy crisis. In the Philippines, the Quezon City Integrated Solid Waste Management Project has plans to work with the private sector in processing municipal solid waste.

  Another global example is the Tropical Forest Alliance, a public-private partnership hosted by the World Economic Forum with more than 150 partners working across Latin America, Africa and South-East Asia to reduce deforestation resulting from commodity production.

As they accelerate these advances, policy-makers will need to strike the right balance between technology advancement and job creation, economic development and sustainability, and scale advantages and concentration of power.

Post-COVID rebuilding and recovery

In the face of COVID-19, the three critical calls to action only grow in urgency. The black swan event has highlighted the need for ASEAN to build greater interconnectivity and resilience to withstand future shocks. In particular, developing economies must continue to boost socio-economic inclusion and invest in infrastructural development to ensure connectivity, food security and healthcare capacity in times of crisis.

The immediate priority for governments and policy-makers is to address the impact of the pandemic. They must protect their people on two fronts. For health, they must push for vigilant testing, effective prevention and treatment. For livelihoods, they must provide stimuli to jumpstart the economy before moving into reintegrating into global flows and preparing for a reshuffling of supply chains.

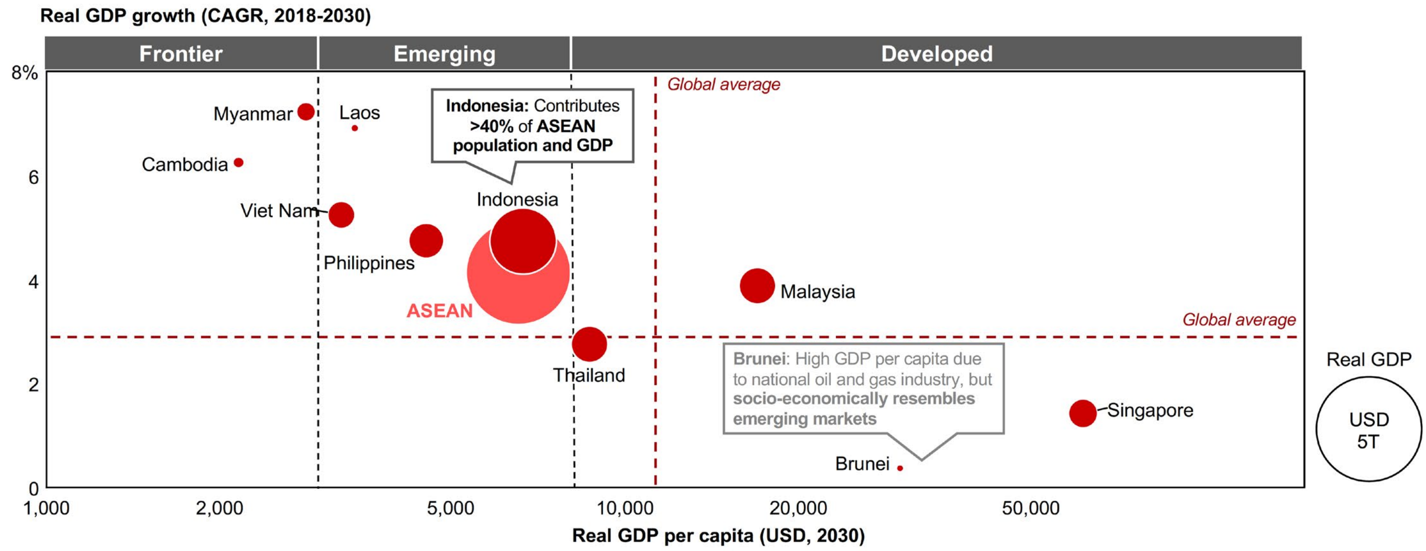
Conclusion

ASEAN is poised to become a dramatic consumption opportunity, driven by four mega-forces: strong demographic trends; rising income levels; geopolitical shifts increasing foreign investment; and digital advances opening new consumer markets. Consumer behaviors are fast evolving, with the young, urban, middle-class consumer of 2030 seeking personalized, value-for-money, social and integrative experiences across online and offline channels. While commonalities exist, each ASEAN market will evolve differently and a “multi-local” approach will remain key for companies hoping to win in this highly diverse region.

Business, government and policy-makers will have increasing influence in the marketplace to guide the region towards a sustainable consumption future. Achieving this vision requires dedicated collaboration across stakeholders, through innovative and inclusive business models supported by a favorable policy environment. COVID-19 is the first of many trials that will add uncertainty – and expose the weaknesses that need to be addressed. The private sector will need to embrace stakeholder capitalism by prioritizing consumer relationships and put sustainability higher on the agenda. For their part, the public sector will need to create trade and investor-friendly reforms, invest in socio-economic inclusion through talent development and upgrading infrastructure for a connected and sustainable future. These public-private partnerships are critical to unlock the full potential of ASEAN and to safeguard its growth story as one of the three fastest-growing consumer markets in the world.

Appendices

Figure 4: ASEAN economies by projected real GDP growth and real GDP per capita

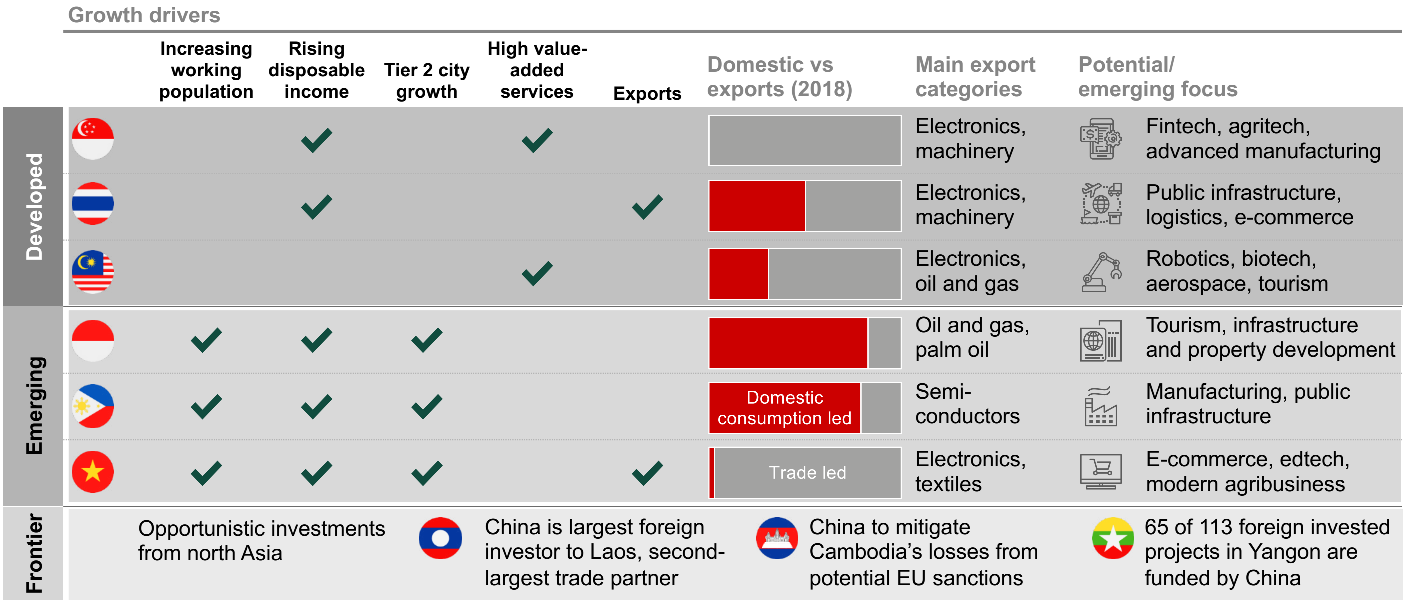


Source: The Economist Intelligence Unit (real GDP); Fitch Connect (population)

Figure 5: Policy initiatives that are accelerating digital adoption in the region

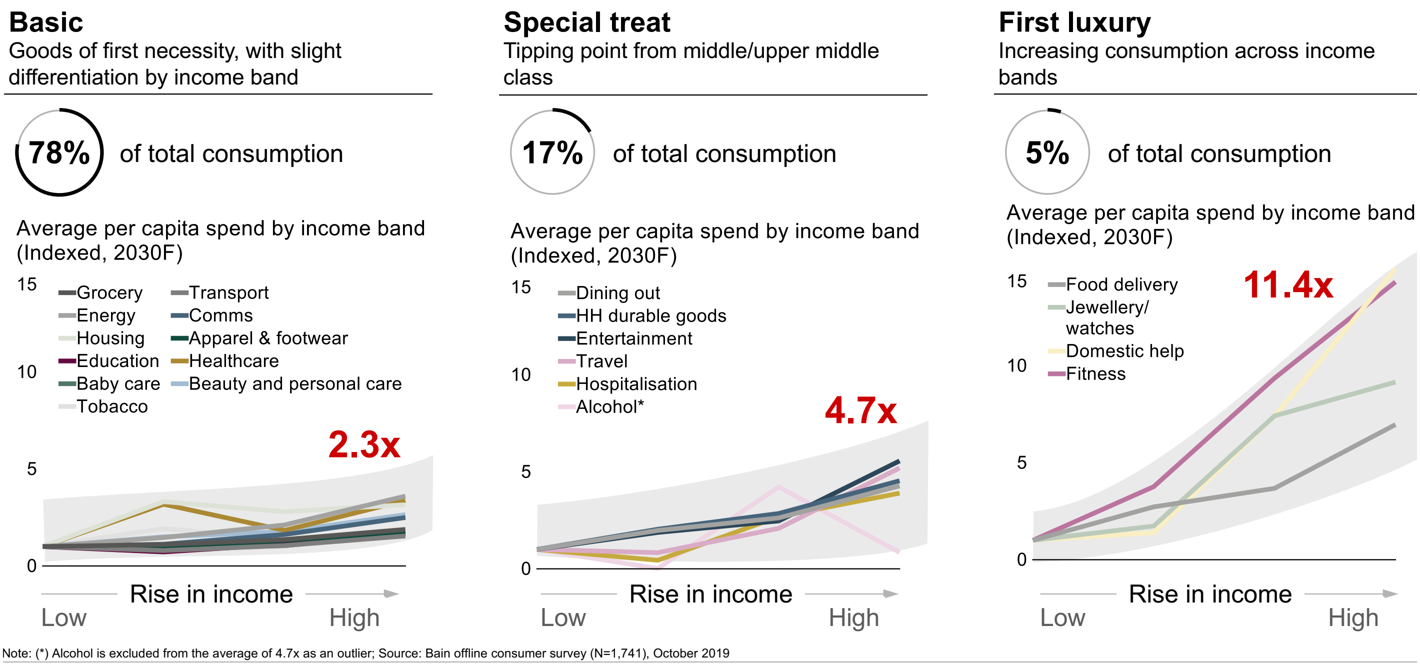
Country	Initiative	Objective and impact
Singapore	Smart Nation Initiative[31]	– Three key pillars: Digital Government, Economy and Society – Initiatives include National Digital Identity, Smart Urban Mobility and OpenCerts (blockchain-based platform for academic certificates)
Malaysia	Digital Transformation Acceleration Programme[32]	– Program aims to make Malaysian companies more competitive through a structured approach to digital transformation – Grants are provided by MDEC (Malaysia Digital Economy Corporation) and MIDA (Malaysian Investment Development Authority) – Partners include digital and professional services firms like Siemens, Bosch, Rockwell Automation and Deloitte
Thailand	Thailand 4.0[33]	– Five Agendas for Thailand 4.0 include: Development of Technology Cluster and Future Industries – New engines of growth identified include: Smart Electronics, Agriculture and Biotechnology (e.g., creating 20,000 “smart farmers”)
Indonesia	Making Indonesia 4.0[34]	– Digital agenda within the 10 national priorities include: Build Nationwide Digital Infrastructure; Establish Innovation Ecosystem; Incentivize Technology Investment
The Philippines	Industry Philippines 4.0[35]	– Focus on intelligent factories, smarter cities and data science; e.g., long-term advanced manufacturing goals are to continue technology upgrading to maintain a globally competitive and innovative manufacturing industry
Viet Nam	Viet Nam Digital Transformation Alliance[36]	– Launched in Hanoi as part of ICT Summit 2019 – Initiated by Viet Nam’s Software and IT Services Association (VINASA); founding members include FPT, Viettel, CMC, VNG and MobiFone – Mission to inspire society to digital transformation through creating infrastructure and services to help businesses and society go digital, such as expanding the national broadband network, implementing 5G mobile connectivity and sharing knowledge in latest technologies

Figure 6: Growth drivers of ASEAN markets



Note: Domestic consumption refers to the sum of private and government consumption, investments less imports from 2018; Source: Euromonitor (exports); Business Times; Industry.gov.ph; The Jakarta Post; Lit search

Figure 7: Household consumption across basic, special treat and first luxury categories by income level



Note: (*) Alcohol is excluded from the average of 4.7x as an outlier;
Source: Bain offline consumer survey (N=1,741), October 2019

Key contributors

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Proprietary research and research partners

In addition to inputs from more than 80 reports and databases on macro-economic and business data, this report draws rich insights from proprietary research conducted by our research partners for the purpose of this project:

- Study of Consumption in Indonesia 2019 – A consumer survey conducted across 2,000 (N=1,741 after population weighting) households and 16 cities and regencies across urban and rural Indonesia, led by Bain and IPSOS

- Macroeconomic research for historical and current data and future projections for Indonesia, led by Bain

- 40 in-depth interviews with global, regional and local ASEAN leaders across consumer business, policy and civic society organizations

Organizations whose leaders were interviewed for key insights and/or joined us for workshops:

- Auric Pacific Group
- Ayala Corporation
- BKPM (Indonesia Investment Coordinating Board)
- Business for Social Responsibility (BSR)
- CB Richard Ellis Group
- Colgate-Palmolive
- DSG Partners
- Endeavor
- Friesland Campina
- Google
- Green Eastern Agri
- Indofood Agri Resources
- International Trade Centre
- Jacobs Douwe Egberts
- Jungle Ventures
- Keppel Corporation
- Keppel Land International
- Kimberly-Clark
- Lazada
- Marico
- McDonald's
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- Mirium
- MullenLowe
- Netflix
- New Hope Group
- Nielsen
- OVO
- Pencils of Promise
- Singapore International Chamber of Commerce
- SM Investments Corporation
- Standard Chartered Bank
- Suntory Beverage & Food Asia
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