

# The Daily Dispatch

## Weekly Special Feature

September 17, 2021

### **Beyond income: Redrawing Asia's consumer map**

By: Oliver Tonby, Rohit Razdan, Jonathan Woetzel, Jeongmin Seong, Wonsik Choi, Sven Smit, Naomi Yamakawa, and Tiago Devesa – McKinsey & Company (Published on September 7, 2021)

**Asia is the world's consumption growth engine**—miss Asia and you could miss half of the global picture, a \$10 trillion consumption growth opportunity over the next decade. Scale continues to be a key characteristic, but the story of the next ten years and beyond is one of rising diversity in consumer markets in this already diverse region amid significant social, demographic, and technological change.

Three changes in perspective are key to understanding the new consumption paths being blazed by Asia's consumers. First, as incomes rise across Asia, more consumers will reach the highest tiers of the income pyramid, and movement within the consuming class is likely to be a larger driver of consumption growth than movement into it. Second, cities will continue to drive consumption growth, but promising sources of growth are increasingly diverse cohorts within cities, such as Insta-grannies in Seoul, Generation Z gamers in Surabaya, career moms in Manila, and lifestyle-indulging digital natives in Chengdu. Third, as the relationship between income and consumption breaks down in some instances, new consumption curves are emerging in specific product categories. Income-driven S-curves may flatten or shift as business innovation and new technologies enable more people, even on lower incomes, to afford goods and services.

Part of a series on the future of Asia, this research focuses on the region's consumer markets, surveying the outlook for consumption and identifying major shifts in consumption patterns and behavior over the next decade. While the COVID-19 pandemic continues to affect economies in Asia and around the world in fall 2021, this research aims to look beyond the economic effects of the pandemic, focusing on the factors that may influence long-term consumption growth in Asia to 2030 and beyond.

**From people moving into the consuming class to moving within the consuming class**

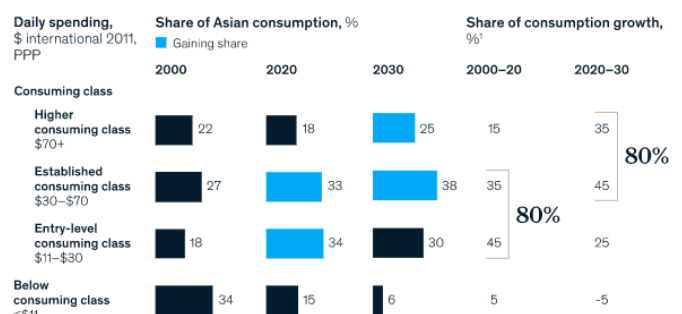
Asian consumers are expected to account for half of global consumption growth in the next decade, equivalent to a \$10 trillion opportunity. Globally, one of every two upper-middle-income and above households is expected to be in Asia, and one of every two consumer transactions is likely to occur in the region.

An increasing number of people are projected to join the consuming class, defined as spending more than \$11 a day in 2011 purchasing power parity (PPP) terms. In 2000, only 15 percent of Asia's population was part of the consuming class; the incomes of the remaining three billion people were still insufficient to support discretionary spending. However, over the next decade, a significant reversal is likely. By 2030, three billion people, or 70 percent of Asia's total population, may be part of the consuming class.

Members of the consuming class are expected to attain higher income levels than ever before, shifting the center of gravity of the income pyramid sharply upward and changing consumption patterns. In the past 20 years, 80 percent of Asia's consumption growth came from lower income tiers of the consuming class as new entrants joined. In the next decade, 80 percent of that growth could come from higher-income consumers (Exhibit 1).

Exhibit 1

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



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

# The Daily Dispatch

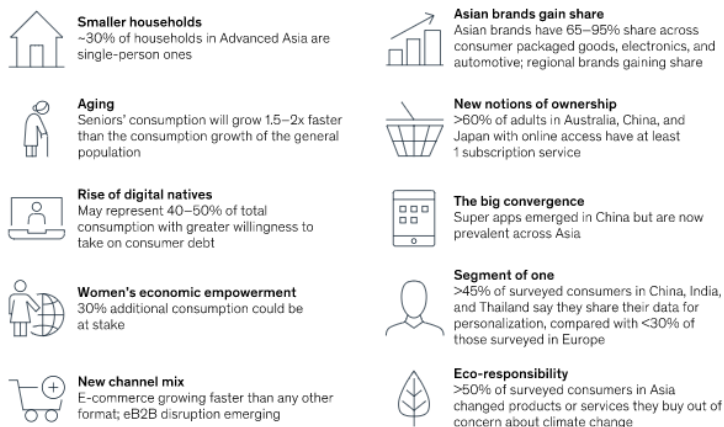
## From people moving to cities to diversifying segments within cities

In the past, companies wishing to understand the granularity of growth in Asia mostly focused on which cities would experience the most rapid growth. Cities are likely to continue to be the main source of the region's consumption growth and are expected to account for more than 85 percent of it over the next decade.

Rising incomes are one important aspect of consumption growth, but focus needs to turn to increasingly diverse consumer cohorts within cities that are driving that growth. As social, demographic, and technological transformations collide, ten consumer shifts stand out across Asia that could offer new angles on growth (Exhibit 2).

Exhibit 2

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



Source: McKinsey Global Institute analysis

**1. Smaller households.** The average size of households has declined in most Asian countries over the past 20 years, by, for example, about 10 percent in Indonesia and almost 30 percent in China. Almost one-third of households in advanced Asian economies and more than 15 percent in China are already single-person ones, and a robust “singles economy” is emerging. Social media, home food delivery, smaller packaged food portions, solo dining and travel, and even pets and robot “friends” as companions are all on the rise.

**2. Aging.** The population of Asian seniors, defined as individuals 60 and over, is expected to grow by around 40 percent over the next decade, and seniors' consumption

may grow twice as fast as that of the rest of the population in many Asian countries. Seniors are increasingly consuming online, a trend the pandemic appears to have accelerated. In only nine months of 2020, seniors' share of China's online population jumped from 6 to 11 percent; by 2030, more than 95 percent of seniors in Australia, Japan, and South Korea are expected to be online, and, under conservative projections, the share in China could exceed two-thirds.

**3. Rise of digital natives.** Digital natives (people born between 1980 and 2012) are expected to account for 40 to 50 percent of Asia's consumption by 2030. With variations within the region, Asia's digital generation tends to use non-Asian social media platforms, but follow local social media influencers, and use Asian e-commerce platforms. Many digital natives are financing consumption with borrowing. In China, surveys indicate that they may take out more consumer loans than any other generation.

**4. Women's economic empowerment.** Five types of women's economic empowerment—increased participation in the labor force, rising income opportunities, increased financial and digital inclusion, changing family structure, and a larger role in purchasing decisions—could boost Asia's consumption growth. Based on the GDP growth potential from narrowing gender gaps estimated in previous MGI research, women's empowerment could add 30 percent to Asia's consumption growth in the period to 2030, or \$3 trillion. Several categories could experience growth of 25 percent or more, including insurance and financial services, apparel, hotels and restaurants, and household goods.

**5. New channel mix.** Digitization is changing the conventional view of Asia's evolving channel mix, which focused on fragmented traditional trade being replaced by modern store-based trade. Some retail markets are leapfrogging straight from traditional formats to e-commerce, which is expected to reach 30 percent of retail sales in China and 20 percent in emerging Asian economies by 2025, according to Euromonitor. Moreover, technology is disrupting traditional route-to-market approaches, thereby addressing inefficiencies; eB2B platforms do so by connecting traditional trade or disintermediating traditional distributors and wholesalers.

# The Daily Dispatch

**6. Asian brands gain share.** Asian brands account for between 65 and 95 percent of the region's consumer spending in categories including automotive, in-home electronics, and consumer packaged goods (CPG). However, the mix of local, regional, and non-Asian may change. Over the past five years, regional players have gained three percentage points of market share in automotive and six percentage points in in-home consumer electronics. In CPG, local and non-Asian brands have had high shares. Regional players' share has been low, but they grew faster than the overall market in most categories over the past five years, and twice as fast in categories such as beauty and personal care.

**7. New notions of ownership.** Economic pressures, changing consumer attitudes, and technology have prompted many Asian consumers to consider alternatives to traditional ownership. Sharing, rental, and subscription economies are gaining traction in, for instance, mobility, fashion, electronics, and housing. Between 2018 and 2020, the share of adults with subscription services in Japan, China, and Australia jumped by five to ten percentage points. In 2020, 89 percent of Chinese online adults had at least one subscription service. Secondhand ownership and secondhand marketplace apps have taken off, and ownership is shifting toward digital, rather than physical, goods and services. Revenue from many digital goods has grown between 25 and 55 percent in Asia over the past five years, according to McKinsey's Global Media Report 2020.

**8. The big convergence.** Consumer demand is being reshaped by a "big convergence" in which many consumer needs are being aggregated and served by digital ecosystems with varying degrees of integration. Super apps are the most integrated type of digital ecosystem, offering a one-stop digital shop for customers with multiple apps and complementary services. Super apps are prevalent across the region with local champions emerging from India to South Korea. Most super apps started from high-frequency functions such as messaging and finance, before adding additional services. Today, many superapps cover needs from healthcare to mobility, entertainment, travel, e-commerce, and others.

**9. Segment of one.** Asia has the right attributes to propel the spread of personalization, including explosive growth in

data creation, capture, and replication that IDC expects to triple between 2020 and 2025 in the region. Asian consumers appear relatively willing to share their data. A 2021 Euromonitor survey found that in China, India, and Thailand, more than 45 percent of respondents said that they share their data for personalized offers and deals, compared with less than 30 percent in France, Germany, and the United Kingdom.

**10. Eco-responsibility.** Amid rising concern in Asia about sustainability, eco-responsible consumption is on the rise. In an Ipsos poll conducted in late 2019, more than 80 percent of respondents in China, India, and emerging Asian economies said that they had made changes to the products and services they buy because they were concerned about climate change. Willingness to pay for more sustainable appears to be rising. In one McKinsey survey, about 80 percent of Chinese and Indian respondents said there were willing to pay for sustainable packaging, compared with 45 to 65 percent of respondents in the United States and Western Europe. Intentions expressed in surveys may not always translate into actual purchases because effective premiums for sustainable products often exceed 30 percent, but rising incomes could close the gap.

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

As companies respond to the diversifying Asian consumer landscape with new offerings, business models, and technology-enabled innovation, the conventional relationship between income and consumption patterns is breaking down in some categories. As a result, categories for which penetration was previously well predicted by income levels are now subject to new forces that companies and investors could usefully factor into their thinking.

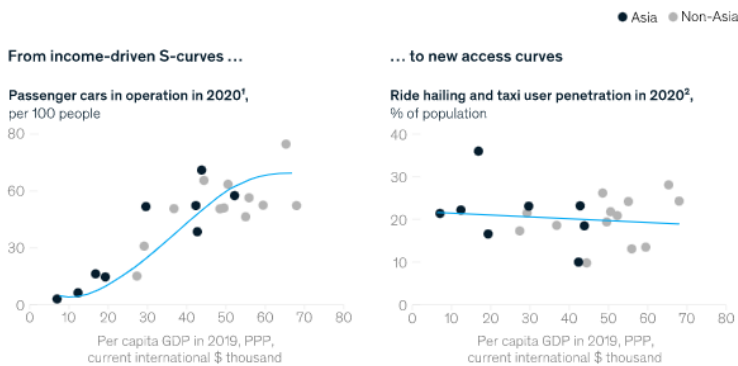
Alongside income-driven S-curves are new market-specific consumption curves. An example is "access curves" emerging in categories such as mobility, gaming, and banking, where business model innovation and digital platforms unlock latent demand by enabling lower-income consumers to obtain services that they could not previously access or were priced out of (Exhibit 3). In private vehicle-based mobility, for instance, the penetration of car ownership follows a well-established S-curve, experiencing a sharp increase when countries reach sufficiently high

# The Daily Dispatch

incomes. However, in the case of new mobility solutions such as ride hailing, penetration is much less dependent on income. Even in categories where a strong relationship with income continues, S-curves may shift as a result of cost innovation, with tipping points occurring at an earlier stage in economies' development. Examples include smartphones and LED lights.

Exhibit 3

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



### Between 15 and 65 percent of value pools may follow different consumption curves over the next decade

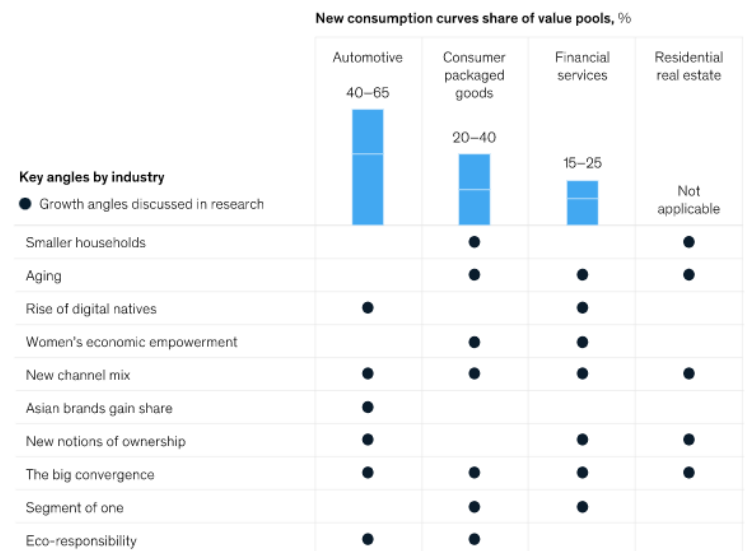
A significant proportion of demand is migrating to market-specific consumption curves, but the size of this shift is likely to differ by sector. In three sectors reviewed—automotive, CPG, and financial services—between 15 and 65 percent of value pools could follow new consumption curves (Exhibit 4). In automotive, the shift could be as high as 65 percent of value. In financial services, 15 to 25 percent could shift. The relative importance of the ten consumption shifts may differ by sector, too.

Companies need to consider how these shifts could play out in their sector, how much value could shift, and the impact of those shifts on the sector's competitive dynamics. Markets that would be deemed unripe for entry using an income-driven S-curve framework are already being served by companies that succeed in innovating their business model or cost structure.

Exhibit 4

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

#### New consumption curves share and key growth angles by industry (simulation)



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

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

Each company has a map of growth, but this can all too easily become outdated without a concerted effort to understand and track dynamically changing markets. Companies may need to rethink how demand for their products and services is likely to evolve and to look carefully at which of the ten growth angles are relevant to their businesses. In the automotive sector, players may capitalize on the big convergence by investing in connectivity services, in-car entertainment, and interfaces with local ecosystems and super apps. They need to consider how to unlock new demand through innovation in business models or product development. In financial services, new financial inclusion access curves could open up new opportunities to meet previously underserved demand. For instance, they could capitalize on customers' leapfrogging directly to digital wallets by using this shift as a launch pad to expand and offer other products.

With a refreshed growth map, companies may then consider adopting a more agile operating model, including bolder resource reallocation; increase the speed of innovation in order to get to market more quickly;

# The Daily Dispatch

empower local decision makers, given that centralized decision making and execution are not likely to be sufficient to capture the nuances of local markets; and ensure that the company board is digitally savvy.

Companies not only need to be agile but also need to take an open, networked approach. In increasingly diverse and dynamic markets, it is likely to be hard for any company to be all things to all consumers, and for many, a promising way forward may be in partnerships and ecosystems. Companies need to decide whether to lead their own ecosystem or participate in an existing one, depending on which role they could fulfil most effectively. They need to be able to navigate new digital ecosystems and handle much larger amounts of data, and often the most effective way to do this is within partnerships.

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Source: Oliver Tonby, Rohit Razdan, Jonathan Woetzel, Jeongmin Seong, Wonsik Choi, Sven Smit, Naomi Yamakawa, and Tiago Devesa (2021) “Beyond income: Redrawing Asia’s consumer map.” *McKinsey & Company*. Available at: <https://www.mckinsey.com/featured-insights/asia-pacific/beyond-income-redrawing-asias-consumer-map> (Accessed 17 September 2021)

# The Daily Dispatch

September 17, 2021  
TODAY'S TOP NEWS

## PH banks asked to switch from LIBOR rate reference

Bangko Sentral ng Pilipinas Governor Benjamin Diokno on Thursday asked banks to proactively transition their transactions to alternative reference rates ahead of the termination of the London Inter-Bank Offered Rate, or LIBOR, as a benchmark rate.

## Emperor seeks secondary listing in SG bourse

Liquor maker Emperor Inc. said Thursday it filed an application for a secondary listing on the main board of the Singapore Exchange. Emperor, controlled by billionaire Andrew Tan, said the application is subject to review and approval of the SGX. The company did not disclose other details of the planned dual listing.

## July remittances climbed 2.5% to \$2.85b

Remittances from Filipinos working overseas rose for the sixth straight month in July, providing the economy a strong buffer against external volatilities brought about by the global pandemic. The BSP said remittances rose 2.5 percent in July to \$2.85 billion, the highest this year, from \$2.78 billion a year ago.

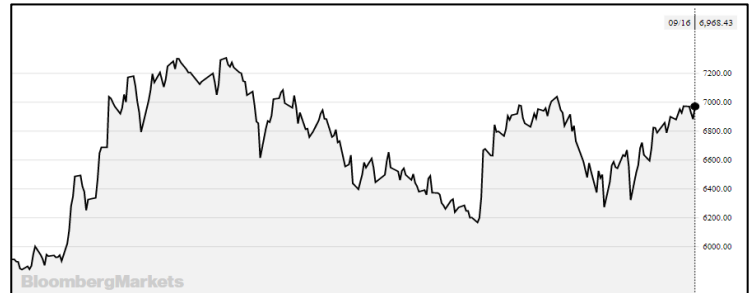
## Xendit raises capital for PH operations

Zhang Yangyang, chief executive officer and managing director of Xendit Philippines, said in a briefing on Thursday that the company has received a \$150 million Series C investment from Tiger Global Management, with participation from existing investors Accel, Amasia, and Justin Kan's Goat Capital.

## LandBank tapped for LTFRB project

The LandBank of the Philippines announced that it will be the primary bank for the disbursement of cash payments under the re-launched Service Contracting Program for public utility vehicle (PUV) operators.

## Philippine Stock Market Update



**Previous Close:**

6,968.43

**Open:**

6,962.04

**52-Week Range:**

5,825.48 - 7,432.40

**1 Yr Return:**

19.00%

**YTD Return:**

-2.68%

**Source:**

Bloomberg

## Foreign Exchange

As of Sept. 16, 2021

US Dollar	Philippine Peso
1	49.97

## BVAL Reference Rates

As of Sept. 16, 2021

Tenor	Rate
1Y	1.635
3Y	2.281
5Y	2.960
7Y	3.605
10Y	4.179
20Y	5.019

## Daily Quote

“A person who never made a mistake never tried anything new.”

-- Albert Einstein

# The Daily Dispatch

## MORE LOCAL NEWS

### Converge targets up to P26-B revenue this year

LISTED fiber broadband provider Converge ICT Solutions, Inc. is expecting to hit P25 billion to P26 billion in gross revenue by the end of the year, up from P15.7 billion last year, as high demand continues.

### Moody's downgrades PHL growth forecast

MOODY'S Investors Service once again cut its economic growth forecast for the Philippines to 4.8% this year, citing the impact of stricter lockdowns and the sluggish vaccine rollout on recovery.

### A Brown unit secures perks for E-Beam

A BROWN Co., Inc.'s wholly owned unit Irradiation Solutions, Inc. (ISI) is now registered by the Board of Investments (BoI) as a new operator of essential services in relation to its Tanay Multipurpose Irradiation Facility project, A Brown said in a disclosure to the exchange on Thursday.

### Maynilad, DoT partner for wastewater drive

MAYNILAD Water Services, Inc. partnered with the Department of Tourism (DoT) on a wastewater management campaign to increase public awareness on environmental protection and sustainable tourism. Maynilad signed an agreement with DoT on Thursday to launch the "Maynilad Kubeta PH X It's More Fun in the Philippines" partnership.

### Water sector needs P1-T investment until 2030

Based on the Philippine Water Supply and Sanitation Master Plan, P734.32-billion in investments was needed between 2020 and 2023, while another P335 billion is needed for the succeeding seven years to achieve universal access to water supply and sanitation for all Filipinos and meet development goals.

### Fiscal support to fix shaky growth

The Bangko Sentral ng Pilipinas (BSP) said more fiscal support and a faster vaccination rollout are crucial as economic recovery remains tentative due to the surging COVID cases.

### 2GO embarking on P150m modernization program

Integrated transportation and logistics provider 2GO Group has embarked on a P150m modernization program to address future customer demand. The investment involves the deployment of technological initiatives on digitization and automation across the company's core businesses aimed at improving competitiveness and achieving its long-term

### RCR's credit rating allows it to double leverage

RL Commercial REIT announced that it had received a credit rating of "PRS Aaa (corp.\*)" from PhilRatings, our domestic credit rating agency. That rating is the highest score that PhilRatings can give out and represents a company with a "VERY STRONG capacity to meet its financial commitments relative to that of other Philippine

### PSEi snaps 3-day skid on upbeat sentiment

Shares snapped a three-day decline, leading gains among emerging Asian markets yesterday, as strong economic data aided sentiment. Elsewhere in the region, equities were largely subdued, dragged by heavy losses in Chinese property stocks amid fears that cash-strapped real estate giant China Evergrande's financial woes could trigger a contagion.

### Govt raises \$866m from sale of retail dollar bonds

The government has raised \$866.2m from the sale of the first-ever issuance of retail dollar bonds (RDBs) to local investors, particularly OFWs. The Bureau of the Treasury said the programmed \$400m offer was oversubscribed by more than twice, prompting the higher award for both the five-year and 10-year RDBs.

# The Daily Dispatch

## TODAY'S TOP ASIAN NEWS

### Many of S.Korea's crypto exchanges set to disappear

SOUTH Korean regulators are set to shut down dozens of cryptocurrency exchanges in coming days, though the impact is likely to be felt only on the margins of the industry given the low volumes involved.

### SIA uses up last S\$600m of S\$8.8b from rights issue

SINGAPORE Airlines (SIA) on Thursday said that it has exhausted the S\$8.8 billion in gross proceeds raised from its rights issue in June last year, with the last S\$0.6 billion having been used for aircraft and aircraft-related payments between July 1 and Sept 1.

### Chinese smartphone giant Oppo cuts jobs

[BEIJING] Smartphone maker Oppo is cutting around 20 per cent of staff in key software and device teams after it merged operations with affiliate OnePlus, the first major consolidation in a Chinese mobile industry struggling with chip shortages and Covid-19-triggered economic shocks.

### Govt, Temasek Holdings set up \$1.5b fund

The Government unveiled a package of initiatives to attract high-growth, high-tech local and regional companies to list on the SGX. The biggest initiative is the setting up of a fund, dubbed the Anchor Fund @ 65, with an initial tranche of \$1.5b, that will assist promising high-growth companies raise capital through public listings.

### Oppo cuts jobs after going up against Apple

Smartphone maker Oppo is cutting around 20 per cent of staff in key software and device teams after it merged operations with affiliate OnePlus, the first major consolidation in a Chinese mobile industry struggling with chip shortages and Covid-19-triggered economic shocks.

## TODAY'S TOP GLOBAL NEWS

### Tesla to work w/ regulators to ensure data security

Electric vehicle maker Tesla will work with global regulators to ensure data security, chief executive Elon Musk told the World New Energy Vehicle Congress in China on Friday (Sept 17).

### SpaceX sends 4 US civilians into space

SPACEX launched four Americans, including a technology billionaire, on a three-day orbital excursion that many see as a harbinger of a new era in human spaceflight.

### Investors sets tough climate blueprint for Big Oil

INVESTORS managing more than US\$10 trillion published an ambitious blueprint on Wednesday for energy companies seeking to tackle climate change, including sharp cuts to greenhouse gas emissions and a winding down of oil and gas production.

### Renault plans to cut 2,000 jobs in France

Renault plans to eliminate 2,000 more jobs while still making nine new models in France as the struggling automaker reshapes operations in its home country and shifts to electric vehicles (EVs).

### Oxford Nanopore seeks \$556.6 million in IPO

DNA-sequencing company Oxford Nanopore Technologies, whose technology is used to identify variants of Covid-19, is looking to raise £300 million (\$556.6 million) in a London listing on the back of a pandemic boost.