

RETHINKING ASEAN

DISPELLING 8 MYTHS ABOUT CONSUMER

MARKETS

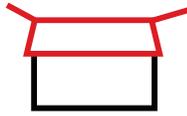
JULY 2017

THE REAL ASEAN CONSUMER LANDSCAPE

The Philippines accounted for

25 PERCENT

of demand in the top 50 markets across 8 product categories in 2016



Growth rates can be more than

7 TIMES

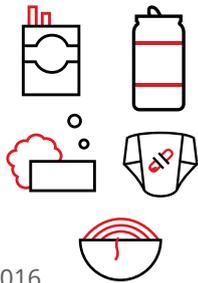
large for some regions within countries than the national average



Large middleweight regions in ASEAN represented more than

50 PERCENT

of the top 50 markets in ASEAN for carbonated soft drinks¹, cigarettes, detergent, diapers and noodles in 2016



Demand for chocolates will be growing almost

2 TIMES

faster in large middleweight regions (1-5 million population) than in mega-cities (over 5 million population) between 2016 and 2030



Since 2010, the share of shampoo demand through modern trade channels has been increasing faster in

LARGE MIDDLEWEIGHT REGIONS

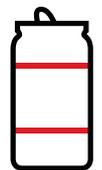
than in mega-cities



Modern trade channels will account for only

23 PERCENT

of future growth in carbonated soft drink to 2030



Ho Chi Minh is forecast to have almost

3 TIMES

higher demand growth to 2030 than Thailand in instant noodles

¹Includes carbonated soft drinks, isotonic drink and sports drinks.

THE MYTHS

1. Indonesia is the only market that really matters in ASEAN
2. Consumer market growth doesn't vary much within countries
3. ASEAN's mega-cities represent the largest consumer markets
4. The fastest consumer demand growth is happening in the mega-cities
5. Modern distribution channels only exist in the mega-cities
6. Income levels are a reliable gauge of likely consumer demand across product categories
7. The major markets in ASEAN won't change much by 2030
8. Picking the right countries will lead to success in capturing future ASEAN consumer markets

THE REALITY

1. The Philippines have a greater share of demand than Indonesia in the Top 50 ASEAN markets across major commodities
2. Growth rates can be more than seven times larger for some regions within countries than the national average
3. Up to half of the top 10 markets in many consumer good categories are from regions with less than five million people
4. The fastest growth in seven out of 10 major product categories is in middleweight regions
5. Middleweight regions have rising penetration of modern trade channels, although traditional channels will remain important to 2030
6. The relationship between income levels and consumer demand varies massively across products
7. An increasing number of middleweight regions will represent the top markets by 2030
8. Some cities in ASEAN will have larger consumer demand growth than entire countries

OVERVIEW

The Association of Southeast Asian Nations (ASEAN) is a coalition of 10 diverse nations: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. ASEAN has enjoyed remarkable economic progress in recent years. Viewed as a single entity, the region would rank as the sixth-largest economy in the world, and the second largest destination for Foreign Direct Investment (FDI). Given a young population, the economic benefits from increased regional integration, the potential gain from digital technologies, and a rapidly urbanizing population, the future prospects for ASEAN are strong. However, despite the current economic importance of ASEAN and these positive economic tailwinds, surprisingly little is known about the many cities and regions that comprise this archipelago. The 625 million people of ASEAN represent a multitude of ethnicities, languages, and religions.

To shed light on the real ASEAN, AlphaBeta (a leading economic strategy firm) and Nielsen (a global performance measurement company), have worked together to conduct detailed economic analysis to understand the current and future potential consumer demand for over 700 cities and regions within the seven largest economies of ASEAN: Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Our analysis covered 10 of the most popular consumer product categories: chocolate, instant noodles, soft drink¹, beer, cigarettes, shampoo, laundry detergent, baby diapers, facial moisturizer, and vitamins.

The results are surprising and even seasoned ASEAN business leaders may need to reset their intuition about what is happening with consumer demand in ASEAN. Think you know ASEAN? Think again.

¹Includes carbonated soft drinks, isotonic drink and sports drinks.

METHODOLOGY

Consumer demand is generally estimated at the national level. Yet increasingly, a more granular view of demand is required to identify the substantial differences in growth rates of regions within countries. To understand the consumer demand prospects of regions within ASEAN, we adopted a three-step approach:

Step 1: Understand the relationship between product demand and economic data

AlphaBeta has a detailed economic database for 1,021 regions within the 10 ASEAN Member States. This database is constructed based on a range of data sources, including local government economic statistics and macroeconomic data from the International Monetary Fund and the World Bank, and validated with AlphaBeta analysis to ensure the robustness of the results. This data was combined with Nielsen consumer demand data for 10 product categories (chocolate, instant noodles, soft drink¹, beer, cigarettes, shampoo, detergent, baby diapers, facial moisturizer, and vitamins) in seven ASEAN Member States (Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam). The Nielsen data was originally available for 35 regions within these countries. The Nielsen data was extrapolated to proxy for non-measured channels by product category and market. The relationship between this consumer demand and the economic data (known as the “product adoption curve”) was analyzed, including examining the relationship between product demand for the 10 categories and different GDP and consumption measures (e.g., purchasing power parity which adjusts for local price levels versus exchange-rate converted measures). Product adoption curves were then constructed for each of the 10 product categories, allowing for country-specific effects which could impact demand at different income levels.

Step 2: Break down Nielsen’s regional product data into more granular, sub-regional splits

Using the historical sub-regional economic data in the AlphaBeta ASEAN database and these product adoption curves, estimates of demand for each of the 10 product categories were estimated for between 524-747 regions (depending on the product category) in the seven ASEAN Member States.

Step 3: Forecast future sub-regional demand growth

The AlphaBeta ASEAN database has forecasted sub-regional consumption and GDP data to 2030, which draws upon historical sub-regional growth trajectories, which are then adjusted for the future forecasted macroeconomic changes at the country level (from the International Monetary Fund). The sub-regional forecasts are further

¹Includes carbonated soft drinks, isotonic drink and sports drinks.

adjusted based on expert input in instances where past growth does not give a reliable forecast of the future for certain sub-regions (e.g., past growth was driven by a short-term natural resource boom). These economic forecasts were then combined with the product adoption curves estimated in Step 1 to produce forecasts of consumer demand for the 10 product categories in the regions. This data is updated quarterly as new economic data and Nielsen product data becomes available.

MYTH 1: INDONESIA IS THE ONLY MARKET THAT REALLY MATTERS IN ASEAN

Indonesia represents approximately 40% of the economic output of ASEAN and, in its own right, would rank as the 15th largest economy in the world today. But when we look at the regional level, we find that Indonesia does not dominate all of the largest consumer markets (Chart 1). In fact, the Philippines accounts for a larger share of the top 50 markets than Indonesia in one third of the consumer product categories we examined.

TOP 50 REGIONAL MARKETS IN ASEAN TODAY

Percent of top 50 markets (by revenue) across 10 product categories*

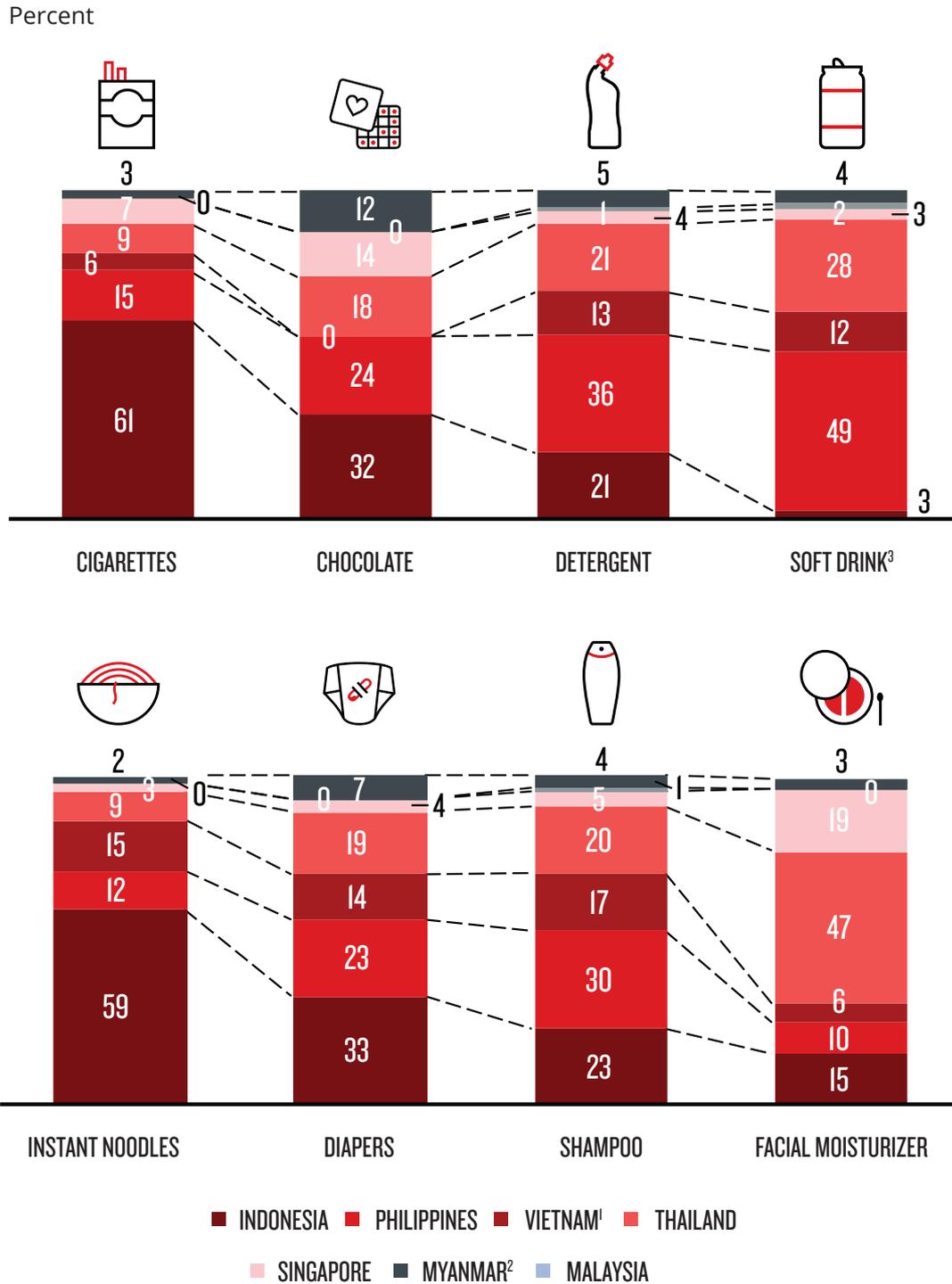
	Indonesia	31%
	Philippines	25%
	Thailand	21%
	Vietnam	12%
	Singapore	7%
	Malaysia	5%
	Myanmar	1%

*Sample average across 10 product categories: chocolate, instant noodles, carbonated soft drink, beer, cigarettes, shampoo, detergent, baby diapers, facial moisturizer, and vitamins. May not sum due to rounding.

CHART 1

THE BIGGEST ASEAN CONSUMER MARKETS TODAY ARE NOT JUST IN INDONESIA

Share of top 50 markets in 2016 (by value)



¹Nielsen does not report demand for chocolates in Vietnam.
²Nielsen covers the six largest cities in Myanmar.
³Includes carbonated soft drinks, isotonic drink and sports drinks.

MYTH 2: CONSUMER MARKET GROWTH DOESN'T VARY MUCH WITHIN COUNTRIES

The traditional approach in targeting consumer markets has been to look at the country-level. This includes examining the growth in the consuming class in the country, understanding the future economic prospects of the country, and deep-diving into other issues (such as consumer debt), which may impact spending. While this country-level analysis provides a holistic view of a market landscape, it does not reveal consumer demand growth between regions within a country, which can differ substantially. A country's overall growth in consumer demand can mask these differences. Within one country, there can be regions with annual growth rates in the double-digits, and other regions with almost no growth at all. Take detergent for example (Chart 2). In Thailand, country-level demand has grown at a relatively modest 1.2% per annum since 2010, however, the region (with more than 500,000 inhabitants) with the fastest growth in the country (Chiang Mai) has grown more than seven times that rate, at 8.9% per annum.

TIME TO LOOK DEEPER

Difference in annual forecast GDP growth rates between national and fastest growing region;* percent, 2010-16

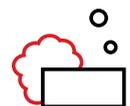
	Myanmar	5.6%
	Thailand.....	4.7%
	Indonesia.....	3.5%
	Philippines	2.3%
	Malaysia	2.2%
	Vietnam	0.5%

* Regions with more than 500,000 inhabitants in 2015.

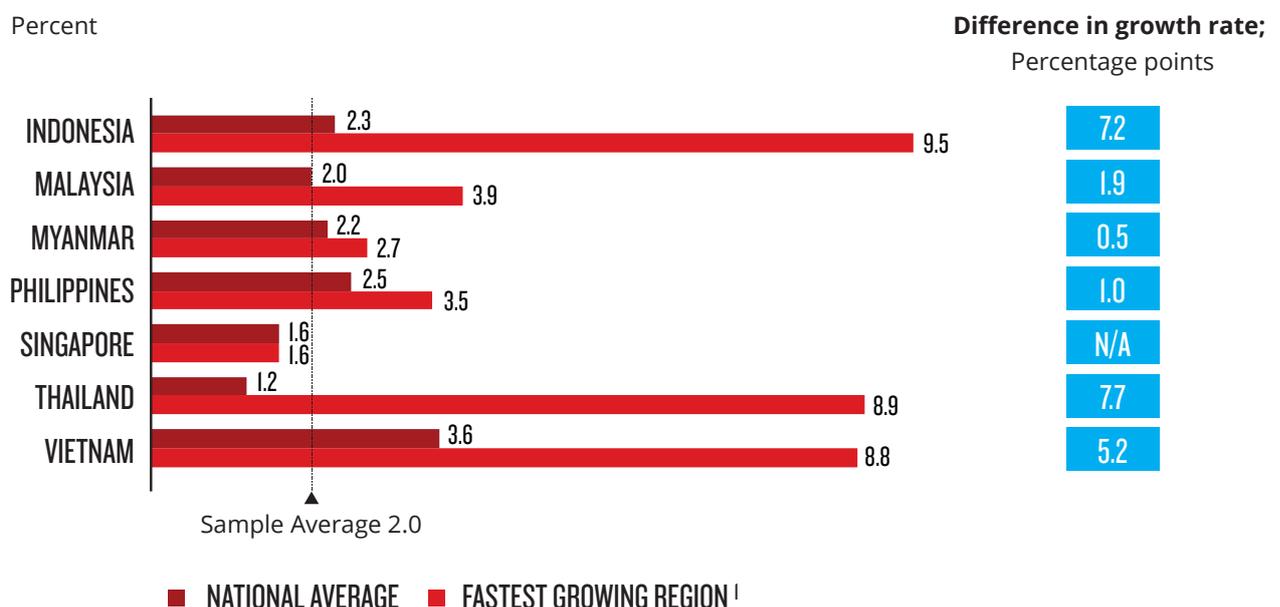
CHART 2

CONSUMER PRODUCT DEMAND GROWTH VARIES SIGNIFICANTLY ACROSS REGIONS IN A COUNTRY

Detergent Example



Detergent consumption (revenue); 2010-16 CAGR



¹Regions with more than 500,000 inhabitants in 2015.

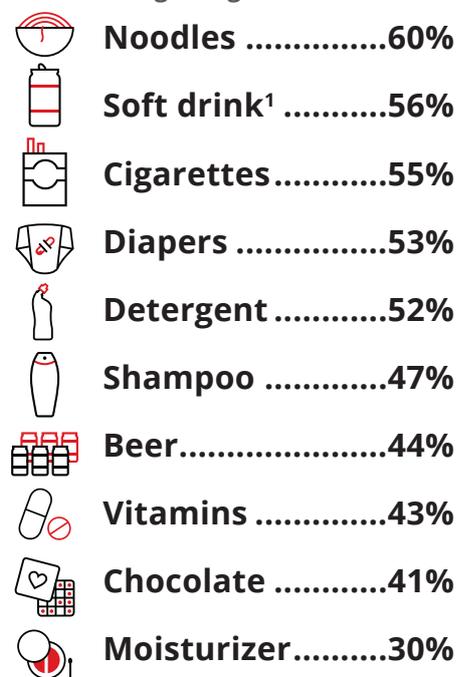
MYTH 3: ASEAN'S MEGA-CITIES REPRESENT THE LARGEST CONSUMER MARKETS

When most companies and investors think of ASEAN, they typically think of mega-cities such as Jakarta, Manila and Bangkok. While these mega-cities (which have a population of more than five million) are indeed important consumer markets, they do not dominate consumer demand. In fact, for many product categories, middleweight regions (with a population between 500,000 and five million) are important markets for consumer demand (Chart 3). Take facial moisturizer as an example. While Bangkok and Singapore are the two largest markets, less well-known markets such as Nakhon Ratchasima, Chonburi, and Rayong (all in Thailand) are also among the top 10 markets in ASEAN.

CHART 3

THE POWER OF THE LARGE MIDDLEWEIGHTS

Share of demand in top 50 markets originating from large middleweight regions in 2016*



*Large middleweight regions are defined as regions with a population of more than 1 million and less than 5 million inhabitants in 2015.

¹Includes carbonated soft drinks, isotonic drink and sports drinks.

Selected Categories

THE BIGGEST ASEAN CONSUMER MARKETS TODAY ARE NOT JUST IN THE MEGA-CITIES

ASEAN sub-regions ranked by consumption (revenue) in 2016

Ranking	Beer 	Soft drink ³ 	Chocolates 	Cigarettes 	Moisturizer 
1	Bangkok	Manila	Manila	Jakarta	Bangkok
2	Singapore	Bangkok	Singapore	Bangkok	Singapore
3	Ho Chi Minh City	Ho Chi Minh City	Bangkok	Singapore	Jakarta
4	Hanoi + Ha Tay	Cebu	Jakarta	Manila	Manila
5	Nakhon Ratchasima	Singapore	Kuala Lumpur	Ho Chi Minh City	Ho Chi Minh City
6	Dong Nai	Kuala Lumpur	Bandung Kota	Karawang Kab	Nakhon Ratchasima
7	Chiang Mai	Jakarta	Surabaya Kota	Kuala Lumpur	Chonburi
8	Da Nang	Cavite	Karawang Kab	Bogor Kab	Kuala Lumpur
9	Nghe An	Negros Occidental	Bekasi Kab	Bandung Kota	Rayong
10	Binh Duong	Hanoi + Ha Tay	Petaling	Surabaya Kota	Hanoi + Ha Tay

■ Mega-cities¹ ■ Middleweights²

¹Regions with a population of more than 5 million inhabitants in 2015.

²Regions with a population of more than 500,000 and less than 5 million inhabitants in 2015.

³Includes carbonated soft drinks, isotonic drinks and sport drinks.

MYTH 4: THE FASTEST CONSUMER DEMAND GROWTH IS HAPPENING IN THE MEGA-CITIES

It is often assumed that the fastest consumer demand growth is happening in the mega-cities of ASEAN. Even since 2010, this was not the case for five of the 10 product categories examined. In the future, it will definitely not be the case. Across seven of the product categories examined, the fastest growth is likely to happen in either small (500,000 to one million people) or large (one to five million people) middleweight regions. Take chocolates as an example, large middleweight regions will experience the fastest growth rate to 2030.

IN WHICH REGIONS IS PRODUCT DEMAND LIKELY TO GROW FASTER?

Fastest forecast growth per product category; 2016-30*

-  Large Middleweights
-  Large Middleweights
-  Large Middleweights
-  Large Middleweights
-  Mega-cities
-  Small regions
-  Large Middleweights
-  Mega-cities
-  Large Middleweights
-  Large Middleweights

*See exhibit 4 for definitions.

CHART 4

Chocolates Example

LARGE MIDDLEWEIGHTS WILL BECOME THE FASTEST GROWING GROUP FOR CHOCOLATES



Population size	Compound annual growth rate of chocolate demand ¹ (based on revenue); percent		# of regions 2016	Share of consumption 2016 (US\$)
	2010-2016	2016-2030		
MEGA-CITIES 5 million and above	4.4	2.6	5	31%
LARGE MIDDLEWEIGHTS 1 million—5 million	4.5	5.1	122	37%
SMALL MIDDLEWEIGHTS 500,000—1 million	4.2	4.1	140	16%
SMALL REGIONS 300,000—500,000	3.9	4.3	116	7%
RURAL REGIONS Below 300,000	3.8	4.0	323	9%
TOTAL	4.3	4.1	706	

WHAT IS DRIVING THE GROWTH OF THESE MIDDLEWEIGHT REGIONS?

Understanding the forces driving growth in middleweight regions is important in understanding past growth as well as identifying sustainability of those growth trajectories. For example, in some regions, past growth has been driven by a natural resource boom, which may not be replicable in the future.

Within ASEAN's large middleweight regions there are six main drivers of growth:

- 1. Cross-border trade and logistics.** Given its proximity to India, China, and Japan, ASEAN is well positioned to benefit from all types of global flows and by 2025, more than half of the world's consuming class will live within a five-hour flight of Myanmar*. Further supporting this growth are factors such as the ASEAN Economic Community (AEC) with its emphasis on promoting the free flow of goods, services, and investment among ASEAN Member States, and major trade deals with other countries outside ASEAN. The large middleweight regions which have benefited most are those on major maritime or land transit routes such as Cebu in the Philippines and Johor in Malaysia, as well as regions that benefit from cross-border trade, such as Khon Kaen and Chiang Rai in northern Thailand.
- 2. Economic clusters.** Export Processing Zones (EPZs), Special Economic Zones (SEZ), and Business Processing Outsourcing (BPO) areas have been established across ASEAN. Beyond the Philippines, which has achieved significant growth in BPO, other economic clusters have also been supporting sub-regional growth in ASEAN, including the Batam Free Trade Zone (Singapore-Indonesia), the Southern Regional Industrial Estate (Thailand), the Tanjung Emas Export Processing Zone (Indonesia), the Port Klang Free Zone (Malaysia), the Thilawa Special Economic Zone (Myanmar), and the Than Thuan Export Processing Zone (Vietnam).
- 3. Satellite regions.** As the mega-cities of ASEAN become increasingly congested and the cost of living rises, nearby regions which are in a commutable distance from these mega-cities are benefiting. These regions, known as satellite regions, include the likes of Bekasi and Tangerang in Indonesia, and Cavite and Bulacan in the Philippines.
- 4. Natural resources.** ASEAN is rich in natural resources. In terms of resource endowments, ASEAN ranks amongst the highest in the world for the production of numerous energy, mineral and agricultural commodities, and additionally has large fresh-water reserves. The commodity super-cycle, supported by the rise of China, has led to rapid demand for natural resources and created a large tailwind of growth for many resource-rich regions. Some of the largest beneficiaries of the resources boom are small

middleweight regions (such as Pekanbaru and Balikpapan in Indonesia), although there have been large middleweight regions such as Makassar where natural resources have also been important for supporting growth and consumption.

5. **Tourism.** The growth in the consuming class in ASEAN and other parts of Asia has fuelled tourism in the region. Tourism growth in ASEAN is being further supported by the entrance of a number of low-cost airlines such as Lion Air, AirAsia, and Tiger Airways and by the gradual but ongoing removal of visa requirements for short-term travel by ASEAN citizens in member states. Roughly 44% of tourist arrivals in ASEAN are from other ASEAN member states, and the total number of intra-ASEAN tourists has been growing at a rapid 8% per annum since 2011. The World Travel and Tourism Council (WTTC) forecasts the tourism sector in Southeast Asia could grow to over \$200 billion by 2025, almost double today's levels². Many large middleweight regions have benefited from these tourism trends, including in Indonesia (e.g., Yogyakarta, Bandung), and Myanmar (e.g., Yangon, Mandalay).
6. **Growing consumer base.** A final driver is related to a growing local consumer base. Many regions in ASEAN have benefited from urbanization which has driven not only increases in total population, but also supported growth by leveraging economies of scale. The productivity of a city with 200,000 people is, on average, 3- 8% higher than one with 100,000 residents.³

In many sub-regions, a combination of these drivers were important for the historical growth trajectory. Overall, the most important drivers were cross-border trade and logistics, economic clusters and a growing consumer base (Chart 5). Notably, these drivers are likely to be more sustainable going forward than other drivers such as natural resources, given the current state of the commodity cycle.

¹Defined as households with more than US\$7,500 in annual income (in 2005 purchasing power parity terms).

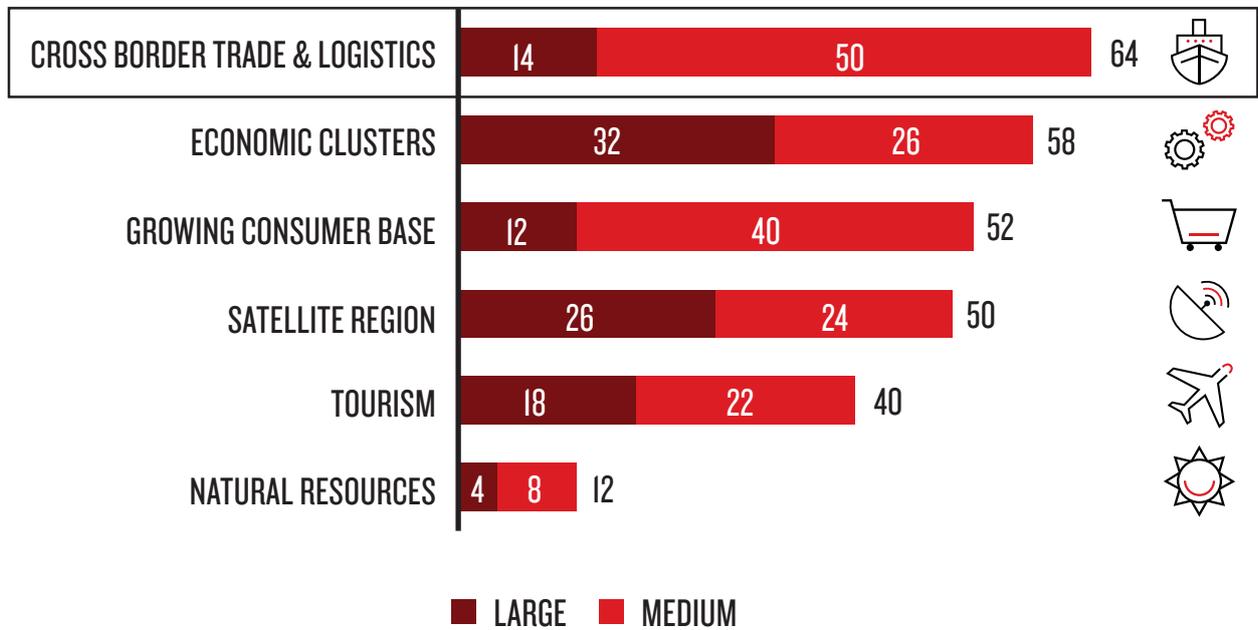
²*Travel & Tourism Economic Impact 2015: Southeast Asia*, World Travel and Tourism Council, 2015.

³Stuart S. Rosenthal and William C. Strange, "Evidence on the nature and sources of agglomeration economies," in *Handbook of urban and regional economics*, 1st ed., volume 4, J. V. Henderson and J. F. Thisse, eds., Elsevier, 2004.

CHART 5

WHAT IS DRIVING THE GROWTH OF THE MIDDLEWEIGHT REGIONS?

Percent of larger middleweight regions where growth driver is of large or medium importance¹



¹Includes the top 50 regions with population of between 1 and 5 million people.
Source: AlphaBeta analysis

MYTH 5: MODERN DISTRIBUTION CHANNELS ONLY EXIST IN THE MEGA-CITIES

Many companies and investors choose to focus on ASEAN's mega-cities as they are considered more accessible due to higher penetration of modern store formats. In reality middleweight regions also have surprisingly high penetration of modern store formats, and the move toward modern store formats is occurring at a faster rate than in the mega-cities. Take shampoo for example, where the share of product demand through modern trade channels has increased by over two percentage points since 2010 in large middleweight regions (Chart 6).

WHICH REGIONS HAVE THE HIGHEST SHARE OF MODERN TRADE?

Share of product demand through modern channels; 2016

-  Large Middleweights
-  Large Middleweights
-  Mega-cities
-  Large Middleweights
-  Mega regions
-  Large Middleweights
-  Mega-cities
-  Mega-cities
-  Mega-cities

CHART 6

Shampoo Example



ALTHOUGH LAGGING MEGA-CITIES, THE PENETRATION OF MODERN TRADE CHANNELS IN MIDDLEWEIGHT REGIONS IS GROWING

Population Size	Modern trade share of total sales; Percent ¹		# of regions 2016	Share of ASEAN modern trade sales	
	2010	2016		2010	2016
MEGA-CITIES 5 million and above	62.5	64.6	7	33%	32%
LARGE MIDDLEWEIGHTS 1 million – 5 million	44.6	47.2	165	40%	42%
SMALL MIDDLEWEIGHTS 500,000 – 1 million	48.2	50.2	140	16%	15%

¹Refers to share of total demand (based on revenue) for each region which is through modern trade channels.

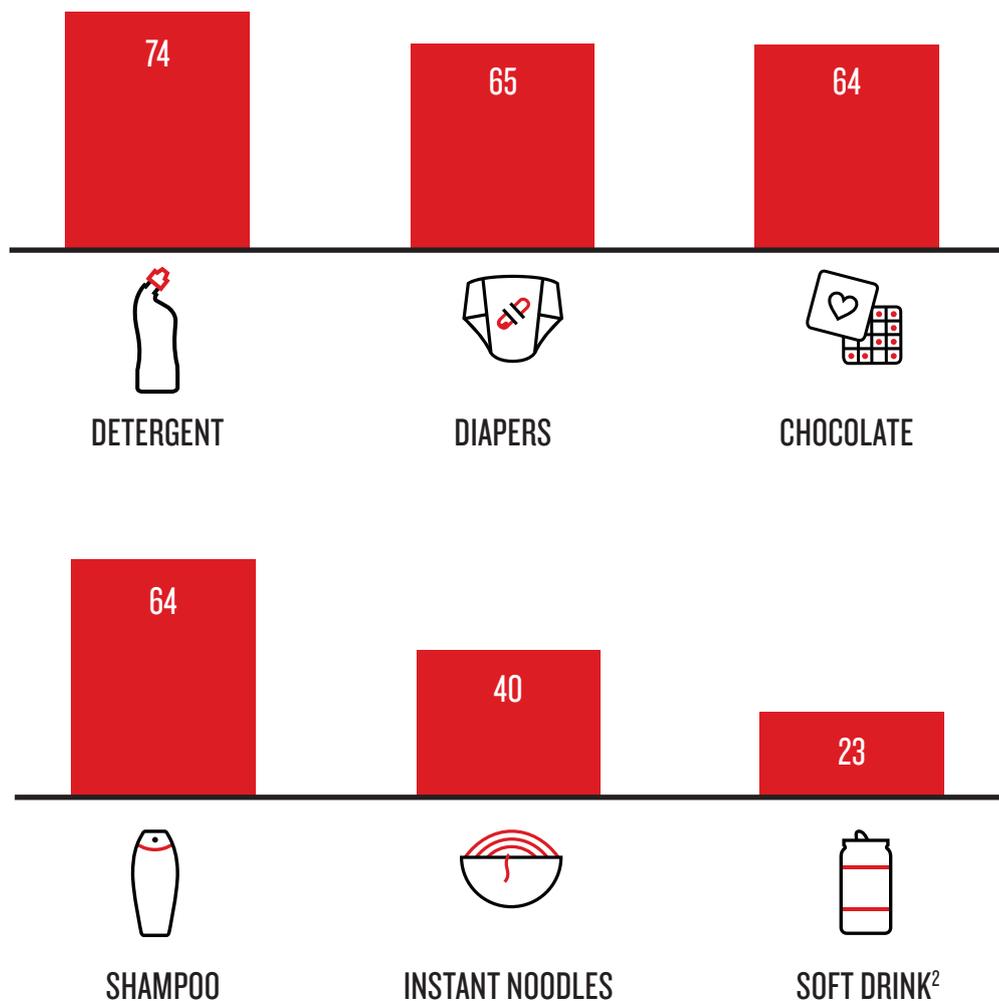
While modern trade may be increasing in these middleweight regions, this does not necessarily mean that by solely concentrating on modern trade channels, companies are well-positioned to tap into future growth. In fact, for certain products, modern trade channels are forecast to capture less than a quarter of total future demand to 2030 in these middleweight regions (Chart 7).

CHART 7

TRADITIONAL TRADE CHANNELS WILL REMAIN IMPORTANT FOR FUTURE GROWTH IN MIDDLEWEIGHT REGIONS TO 2030

Modern trade's projected share of total sales growth between 2016-2030 in middleweight regions¹

Percent



¹Regions with a population of more than 500,000 and less than 5 million inhabitants in 2015.

²Includes carbonated soft drinks, isotonic drink and sports drinks.

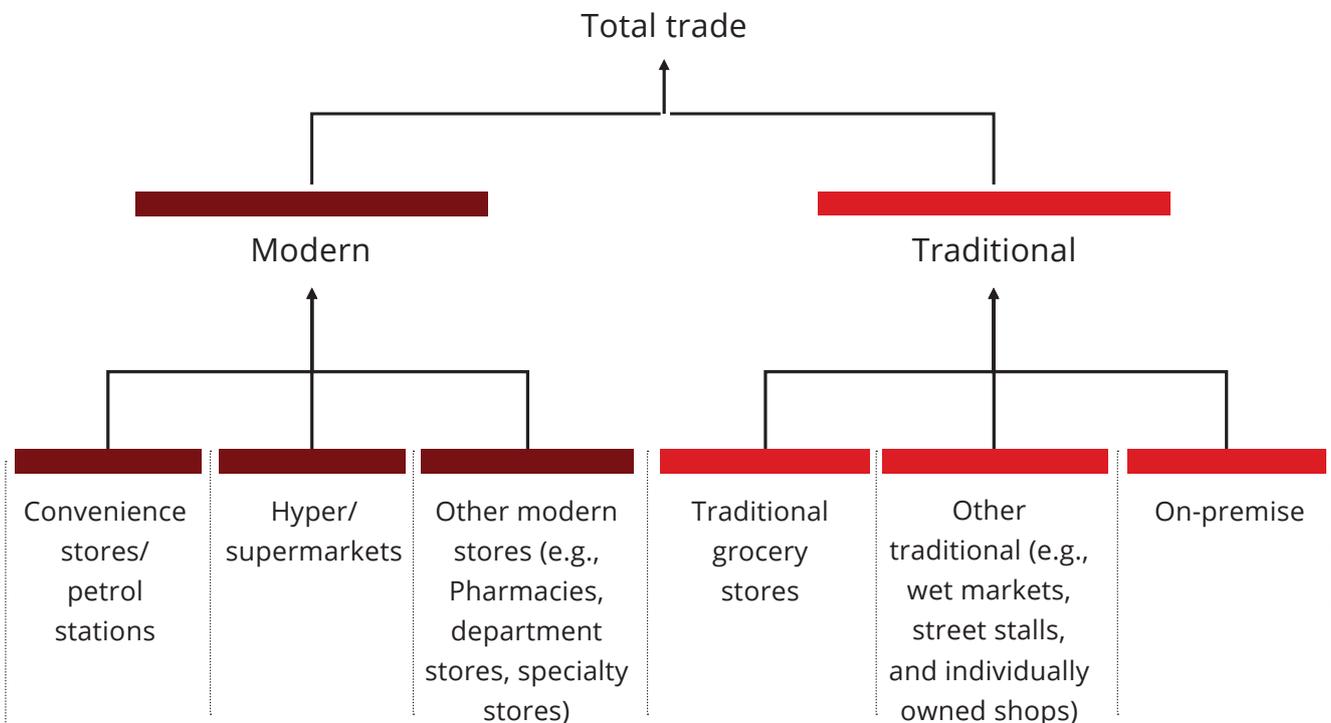
UNDERSTANDING DISTRIBUTION CHANNELS IN ASEAN

Distribution networks are typically broken down into “modern” and “traditional” forms of trade channels and within the latter category, a further disaggregation is usually made between “on-premise” and “off-premise” forms of trade channels. Modern retail includes convenience stores (e.g., Indomaret, 7-eleven), department stores (e.g., Matahari and Sogo), hypermarkets (e.g., Carrefour, Makro), supermarkets (e.g., CP Foods), and specialty stores (e.g., Ace Hardware). Traditional off-premise channels include wet markets (where live animals are sold), street stalls (e.g., “warungs”), and individually owned shops. Traditional on-premise channels include restaurants, bars, cafes and school canteens.

Definitions of trade channels can vary somewhat across countries, particularly in terms of what is defined as modern versus traditional retail trade. An aligned set of definitions was used linked to data availability across countries (Chart 8).

CHART 8

BREAKDOWN OF TRADE CHANNELS



MYTH 6: INCOME LEVELS ARE A RELIABLE GAUGE OF LIKELY CONSUMER DEMAND ACROSS PRODUCT CATEGORIES

Consumer goods companies often think about the relationship between income and product adoption following an “S-curve”. It begins flat, with incomes growing but no significant change in product demand as the product is still likely unaffordable for a large share of the local population. This phase is known as the “warm-up phase”. After this point, once incomes have risen sufficiently, there is strong growth in consumer demand, with growth outpacing the growth in incomes. This is known as the “take-off” phase, and is typically the most exciting for consumer goods companies. Finally, the product adoption curve begins to once again flatten out as product demand becomes largely saturated. This is known as the “cooldown phase”.

In ASEAN the shape of the product adoption curve varies significantly by product category. Some categories, such as detergent, closely resemble the typical S-curve, whereas others, like facial moisturizer, do not follow this pattern (Chart 9). This is important because the shape of the adoption curve has fundamental implications for business strategy.

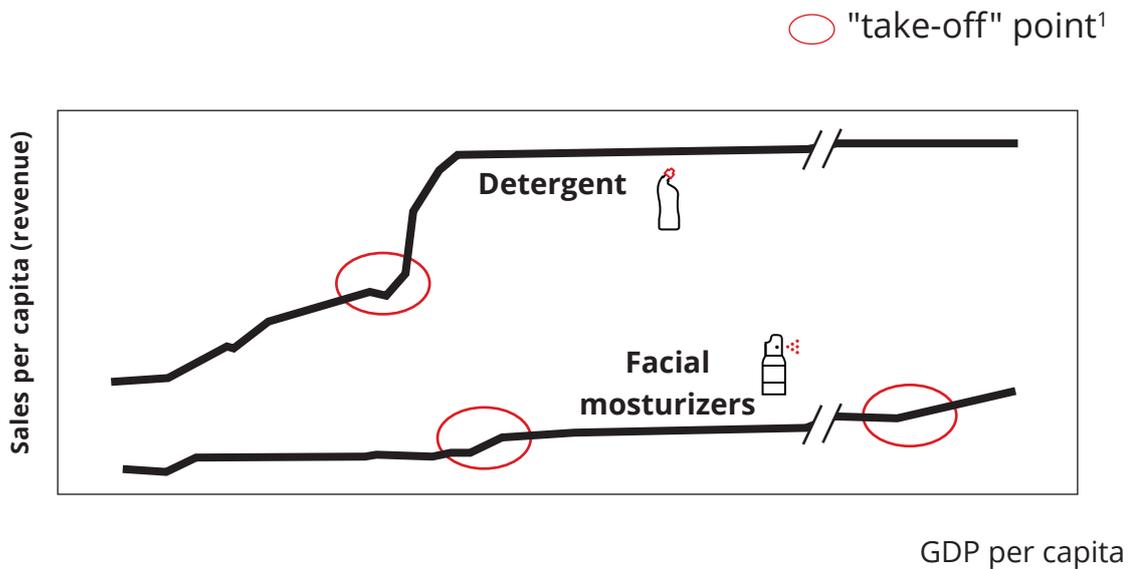
THINK YOU KNOW WHEN DEMAND IS ABOUT TO TAKE OFF?

Income per capita where product demand grows significantly faster than income growth; US\$ (current exchange rates)

	.....	\$3,000
	.....	\$2,500
	.....	\$2,000
	.....	\$2,000
	.....	\$1,000
	.....	\$1,000
	.....	\$1,000
	.....	None
	.....	None
	.....	None

THE “TAKE-OFF” POINTS VARY BETWEEN PRODUCT GROUPS, BOTH IN INCOME RANGE AND RATE OF DEMAND ACCELERATION

Growth of product categories shows different “inflection points”



¹The “take-off is defined as the income range where product grows exponentially.

Typically the best time for a consumer goods company to enter a market is before it reaches the “take-off phase”. This can provide a first mover advantage and expedite the establishment of distribution networks and brand loyalty, but avoid wasting time and capital of moving to a market too soon. However, this “take-off phase” may vary significantly by product category, and in some cases, may not exist at all, and instead follow a more linear relationship between income and product demand. Consumer goods companies should therefore be careful to avoid adopting a “one size fits all” approach to product adoption. Take Indonesia for example. There are 263 regions within Indonesia currently in the “take-off” phase for instant noodles, but only 87 regions for chocolate (Chart 10).

THE NUMBER OF SUB-REGIONS IN THE “TAKE-OFF” ZONE VARY SIGNIFICANTLY BY PRODUCT, EVEN WITHIN THE SAME COUNTRY

Number of sub-regions in “take-off” phase in 2016 by product¹

				
 Indonesia	111	263	87	195
 Malaysia	11	0	47	11
 Myanmar	0	63	0	0
 Philippines	24	53	5	32
 Singapore	0	0	0	0
 Thailand	19	29	16	28
 Vietnam	10	37	5	20

Percent of regions in country in “take-off” zone



¹The “take-off” is defined as the income range where product demand grows exponentially.

MYTH 7: THE MAJOR MARKETS IN ASEAN WON'T CHANGE MUCH BY 2030

While the data and insights which highlight rapid growth in smaller regions is compelling, many consumer goods company leaders question whether it should be a catalyst for driving strategic change. In other words, are these fast-growing smaller regions too small to matter in any reasonable time scale?

The reality is, by 2030, the ASEAN market landscape will look very different. Many middleweight regions will increase their ranking amongst ASEAN's top markets by 2030 (Chart 11). Targeting these regions today, will ensure a seat at the table for the top markets of tomorrow. Consumer goods' companies will need to place greater attention on monitoring the growth of high profile middleweight regions and decide when is the right time to invest in expanding their distribution channels.

THINK YOU KNOW THE MARKETS OF TOMORROW?

Number of new regions entering the Top 30 ASEAN markets by 2030 per product category

	Cigarettes	7
	Diapers	7
	Moisturizer	6
	Vitamins	6
	Detergent	5
	Beer	5
	Chocolate	5
	Noodles	3
	Shampoo	3
	Soft Drink¹	2

¹Includes carbonated soft drinks, isotonic drink and sports drinks.

CHART II

Selected Categories

MANY MIDDLEWEIGHT REGIONS WILL INCREASE THEIR RANKING AMONGST ASEAN'S TOP MARKETS BY 2030

ASEAN sub-regions by consumption (revenue)

2030 rank	Beer 	2016 rank	Cigarettes 	2016 rank	Chocolates 	2016 rank
1	Bangkok	1	Jakarta	1	Manila	1
2	Ho Chi Minh City	3	Manila	4	Jakarta	4
3	Singapore	2	Bangkok	2	Bangkok	3
4	Hanoi + Ha Tay	4	Singapore	3	Singapore	2
5	Da Nang	8	Bandung Kota	9	Kuala Lumpur	5
6	Dong Nai	6	Surabaya Kota	10	Bandung Kota	6
7	Nakhon Ratchasima	5	Ho Chi Minh City	5	Karawang Kab	8
8	Thanh Hoa	11	Medan Kota	11	Cebu	15
9	Nghe An	9	Bogor Kab	8	Cavite	11
10	Binh Duong	10	Karawang Kab	6	Bogor Kab	16

■ Mega-cities¹ ■ Middleweights²

¹Regions with a population of more than 5 million inhabitants 2015.

²Regions with a population of more than 500,000 and less than 5 million inhabitants 2015.

MYTH 8: PICKING THE RIGHT COUNTRIES WILL LEAD TO SUCCESS IN CAPTURING FUTURE ASEAN CONSUMER MARKETS

In the years ahead many sub-regions will have bigger sales growth than entire countries, which raises the question as to whether it may be pertinent to consider consumer demand at a sub-region level before looking at country-level opportunities. Take instant noodles for example (Chart 12). Ho Chi Minh City is expected to have US\$76 million more annual demand in 2030 than in 2016 – almost three times higher than the demand growth expected in Thailand, and also higher than Malaysia.

TIME TO THINK OF CITIES RATHER THAN COUNTRIES?

Number of regions which could have larger increase in consumer demand spending than in Singapore over the next 15 years

	Diapers	66
	Detergent	39
	Soft drink ¹	38
	Noodles	26
	Cigarettes	25
	Shampoo	8
	Chocolate	5
	Moisturizer	4
	Vitamins	3
	Beer	3

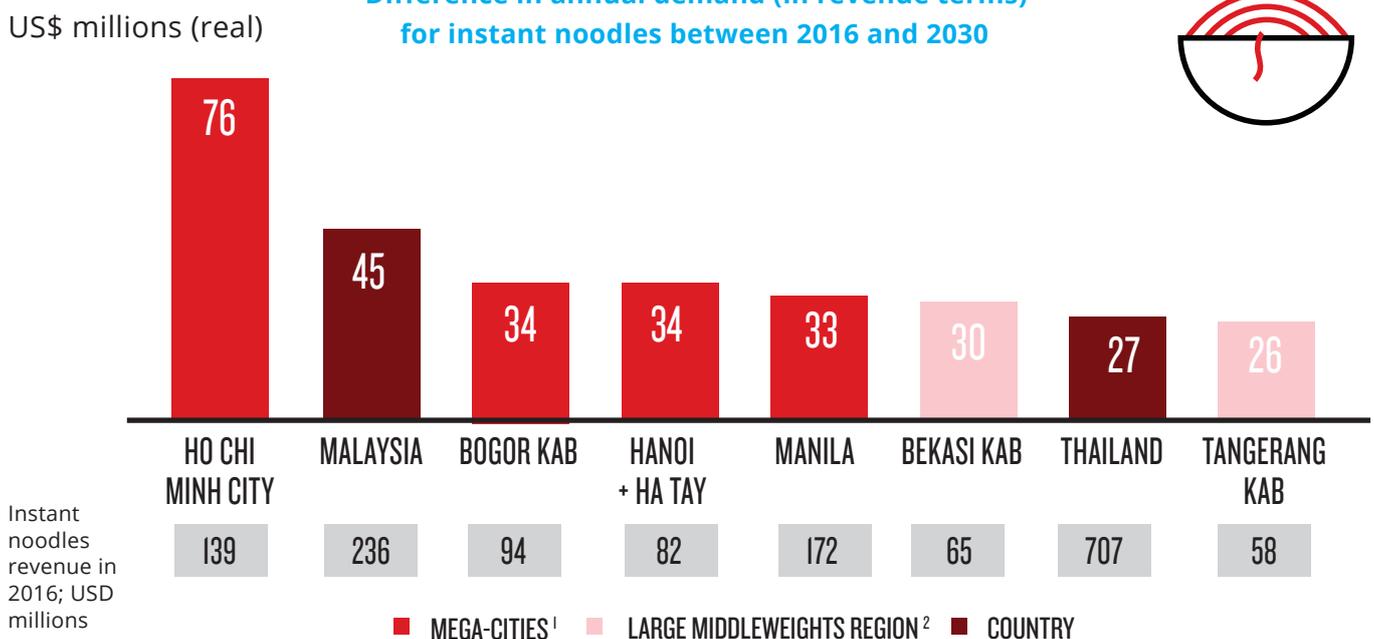
¹Includes carbonated soft drinks, isotonic drink and sports drinks.

CHART 12

Instant Noodles Example

SOME SUB-REGIONS IN ASEAN ARE FORECAST TO HAVE LARGER SALES GROWTH THAN ENTIRE COUNTRIES

US\$ millions (real) **Difference in annual demand (in revenue terms) for instant noodles between 2016 and 2030**



¹Regions with a population of more than 5 million inhabitants in 2015.

²Regions with a population of more than 1 million and less than 5 million inhabitants in 2015.

HOW CAN COMPANIES NAVIGATE THE COMPLEX ASEAN LANDSCAPE AND TAP INTO GROWTH HOT SPOTS?

ASEAN is incredibly diverse. Even at a country level, regions are extremely diverse. The standard deviation in average incomes between ASEAN countries is over seven times that of EU member states. The standard deviation within countries can be even larger. The region is also remarkably diverse in terms of language, culture and religion. Myanmar alone has more than 135 ethnic groups.

In such a complex landscape it is important to take a granular approach to understanding market opportunities in ASEAN. Moving beyond national averages to understand regional differences is crucial. Focus should be placed on establishing granular plans targeting specific customer segments and regions. In some cases, it may make more sense to prioritize middleweight regions above countries.

Identifying appropriate products for different income points is also crucial. This requires a detailed understanding of the “take off” points for different products across regions in ASEAN. This approach facilitates market-specific innovation to meet consumers’ evolving needs and purchasing power. For example, in the Philippines, small portion sized products (“tingi-tingi”) are particularly popular due to the low disposable incomes.

Finally, business model innovation is crucial. Given the diversity of regions in ASEAN and the fragmented distribution channels, it will be important for companies to think about innovative, low cost approaches to building market presence. For example, establishing early networks with local distributors and monitoring market developments in regions that are in the “warm-up” phase can help to prepare for the “take-off” phase. For more advanced regions, the business model could evolve to establishing a greater “on the ground” presence. And finally, for regions in the “cooldown” phase, focus should be placed on lowering cost to serve through driving efficiencies in the supply chain.

WANT TO FIND OUT MORE?

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ABOUT ALPHABETA

AlphaBeta is a strategy advisory business serving clients across Australia and Asia from offices in Singapore and Sydney. Our team of advisors are experts in both strategy and economics who partner with clients from the private, public, and not-for-profit sectors to identify the forces shaping their markets and develop practical plans to create prosperity and wellbeing.

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