Consumer Behavior in Asia Pacific

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September 25, 2013

BCG
THE BOSTON CONSULTING GROUP

The Boston Consulting Group
Dedicated to retail transformation globally

Gavin Parker

- 20+ years retailers in Europe and Australia
- Experience in end-to-end retail reinventions
- Alignment of supporting organizational functions
- Topic leader in transformation and reinvention in retail

BCG's Consumer Retail practice

- Close to 20% of worldwide revenues
- > 1100 retail assignments in last five years
- 250 partners worldwide with significant experience in retail
- Work with two-thirds of the 20 largest retailers in the world
- Strong presence in Asia Pacific, working with half of the 10 largest retailers

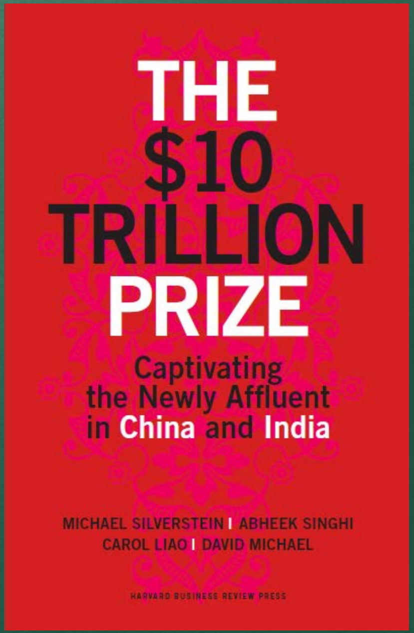
Understanding the consumer is core to what we do

BCG has been measuring consumer sentiment worldwide since 2006—including in Asia

Annual reports based on > 30,000 respondents

China 2,164	India 2,226	Japan 2,504	Canada 3,100
France 2,501	Italy 2,389	Australia 2,502	US 2,503
Spain 2,469	Brazil 2,391	Germany 2,497	UK 2,539

Recent book on AP



Full report to be published in early October
www.bcgperspectives.com

Some important themes emerging from consumer

1 Common challenge for retailers in all Asian markets

- Understanding and responding to new "status currency" categories...and the unhealthy and "non-essential" categories on which customers say they will spend less
- Opportunities for those who can harness web for sales and for marketing

2 But other challenges differ between developed markets (**e.g., Japan; Australia**) **and markets undergoing continued development** (**e.g., China; India**)

2a In **developed** markets, challenge is to manage depressed consumer sentiment, and identify consumer trends on which to anchor a growing offering

2b In **developing** markets, challenge is to plan for massive increase in consumer spending expected over the next two decades...

2c ... and to work to overcome the infrastructure challenges that exist in developing Asia

- – e.g., having flexibility to manage heterogeneity of regional markets
- – e.g., having ability to hire, train and retain scarce human resources

Winners will be those who anticipate differentiated customer needs and cater to them efficiently

Consumers plan to increase spend on new status currency categories ...

Categories where consumers intend to increase their total spending

Developed economies

- Fresh fruits/vegetables
- Vacation/leisure travel
- Fresh fish and seafood

- Organic food
- Natural products
- Children's clothing

Developing economies

- Fresh fruits/vegetables
- Vacation/leisure travel
- Fresh fish and seafood

- Home renovations
- Mobile electronics

… while decreasing spending on unhealthy food and non-essential products and services

Categories where consumers intend to **decrease** their total spending

Developed economies

- Luxury brands and products
- Handbags/fashion accessories
- Eating out
- Home furnishings and decor
- Snack foods

Developing economies

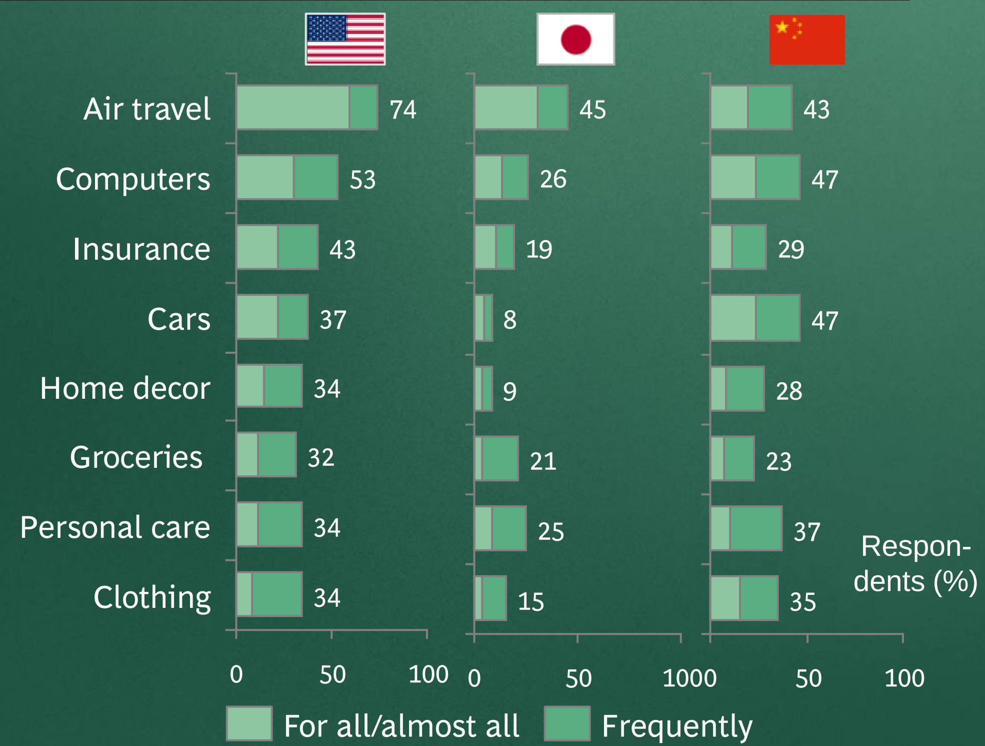
- Luxury brands and products
- Handbags/fashion accessories
- Fashion jewelry
- Carbonated soft drinks
- Dry and canned foods
- Spirits/alcoholic beverages
- Fragrance/perfume
- Facial skin care
- Hair and body personal care

1

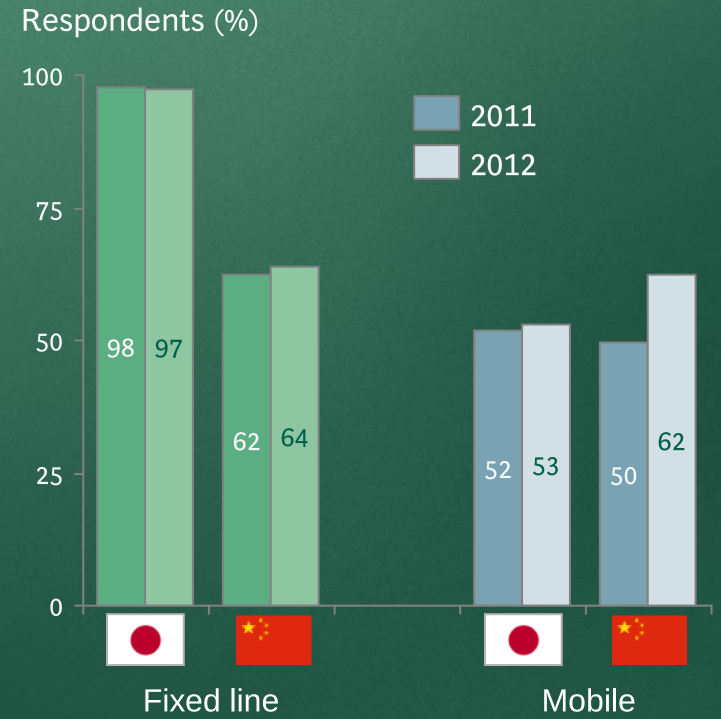
Internet is becoming all-pervasive

Retailers cannot ignore internet; cannot ignore mobile internet

Use of internet high when shopping most categories today



Mode of interaction increasingly mobile



Developed challenge: how to use web and existing stores
Developing challenge: how to build web and stores at same time to work together with clear roles and synergies

2a

In developed markets, opportunity to tap into consumer values trends

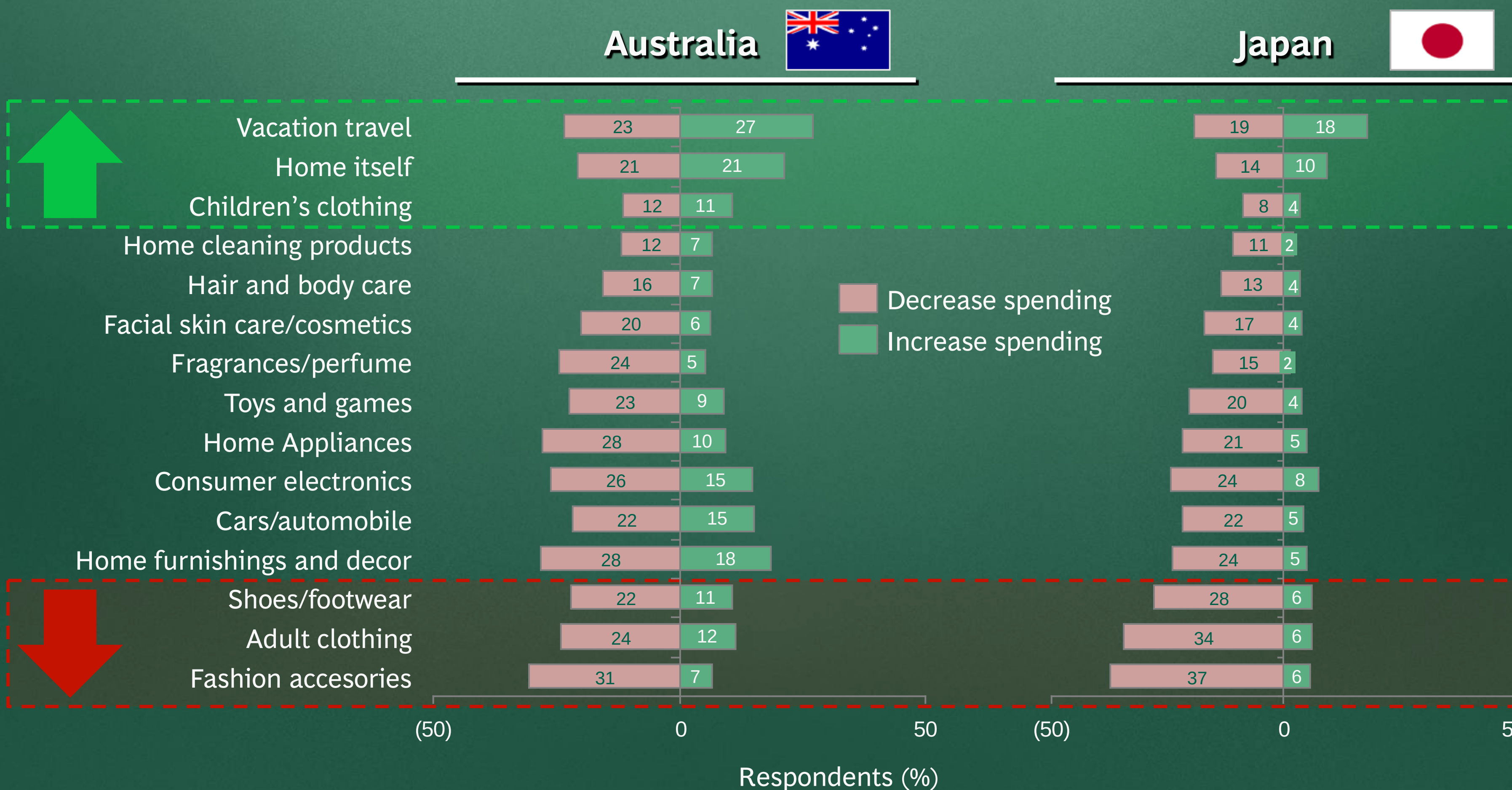
	Australia	Japan
More important than 2 years ago	• Value for money • Health • Wellness • saving • Family • Stability • My Home • Calm	• Health • Saving • Stability • Calm • Wellness • Family • Environment • Wealth
Less important than 2 years ago	• Professional success • Festivity • Bright colours • Religion • Status • Luxury	• Excitement • Craftsmanship • Professional success • Status • Religion • Luxury

Family, health, well-being trends may be key to unlocking retail value in developed markets

2a

Some categories performing better than others in "crisis"

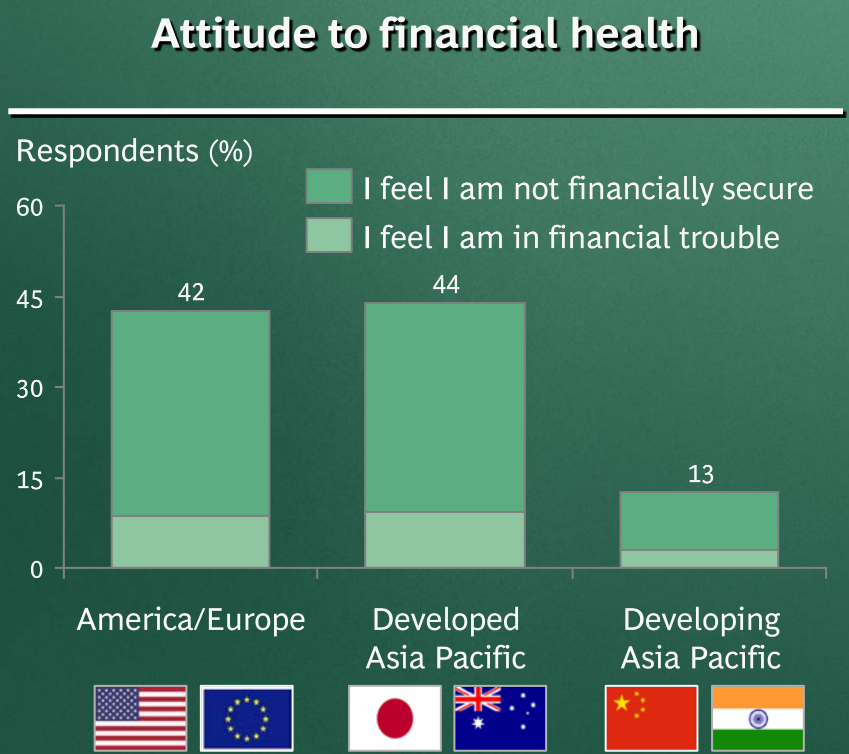
Home; vacations; personal care—categories matching values trends

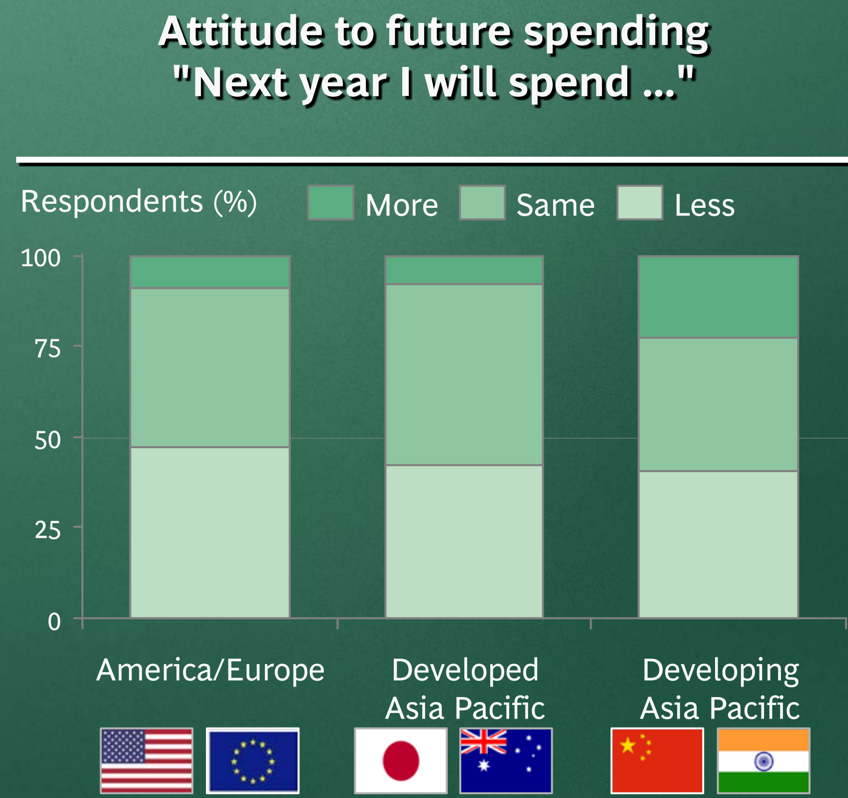


Opportunity to get ahead of the curve in offer mix; space mix; portfolio mix

2a

Developed markets pessimistic; developing markets still trading up and spending more





Vital to differentiate by level of development, country, market within country

Source: 2013 BCG Consumer Sentiment Survey

2b

In developing markets, challenge is how to take advantage of massive growth in consumption

Metric	Born in 1960	Born in 2009	Born in 1960	Born in 2009
Life Expectancy (years)	42	64	47	73
Per capita consumption at birth	$241	$802	$102	$1,429
Per capita consumption at death	$531	$6,151	$1,129	$21,400
Lifetime consumption	$14,645	$184,556	$16,443	$632,024

13x

39x

Note: All figures are in constant 2010 USD. Key assumptions: population grown flattens after 2050 and real annual GDP growth is 3% after 2020
Source: World Bank; United Nations Dataset; UN Population Divison, Euromonitor; Economist Intelligence Unit; BCG analysis

2b

A $10T retail prize in China and India by 2020

Total spending ($ billions[1])	China in 2020	India in 2020	Total
Food[1]	$1,390	$913	$2,303
Housing/home goods	1,479	774	2,253
Transport/telecom	763	618	1,381
Education and leisure	890	360	1,250
Health	444	184	628
Clothes/footwear	359	189	548
Other	862	546	1,408
Total	6,187	3,584	9,771

1. In nominal dollars at constant 2010 exchange rates
Note: Expenditure on food includes spend on alcoholic beverages and tobacco but excludes food sold in restaurants, hotels, kiosks, etc.
Source: IMF; Economist Intelligence Unit; Euromonitor; Project Landmark consumer research (December 2010); BCG analysis.

2b

Indian and Chinese consumers have high hopes, dreams and aspirations for future

Mr. #19

"I can do anything"

Rakesh Kumar Sahu

"My life is filled with luck"

WX Liu

"Garage, but no car; plug, but no air conditioner"

KFC birthday girl: Duoduo

"Big sister at KFC is better than real sister"

Harvard girl

"Ambition, drive, and giving back"

How can retailers tap into this optimism about the future – serve future needs, not just current ones?

Winning the $10T Prize not easy

1 **Diversity**

- Continents, not countries

2 **Consumers who want it all**

- Brand conscious with value mindset

3 **Infrastructural challenges**

- Physical and systemic

Heavy impact for retailer formats, offerings and management

Asian giants have multiple markets, not one

Retailers need to be able to serve big local markets and win market by market

Large country …

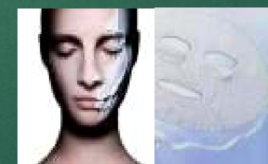
… with very different consumer needs

West: moderate weather with clear seasonal differences

Food
- Spicy

Skin
- Whitening

North: sandstorms in spring, dusty and dry year-round



Food
- Salty
- Wheat-based

Skin
- Moisturizing
- Anti-aging

East: humid weather with clear seasonal differences

Food
- Sweeter

Skin
- Moisturizing
- De-stressing

South: humid and relatively warm year-round

Food
- Light

Skin
- Oil control
- Anti-acne

Source: Economist

Infrastructure, and especially human resources, a major challenge for growth in Asia

Physical Infrastructure

India

India lags RDEs on physical infrastructure

- 86th on global competitiveness infrastructure index (2010)

Execution is a challenge

- Plan vs. achievement gap of 33%–50% over the past four five-year plans

China

China' infrastructure also leaves room for improvement in certain provinces

- 50th on the global competitiveness infrastructure index ranking (2010)

Human Capital

India

80 million increase in working population over the next decade ...

... However shortfall of > 50 lakh skilled workers in the next five years alone

China

Aging population

- 60+ will go from 8.2% in 2010 to 15% in 2020

Labour costs increasing

Limited pools of skilled managers

Government Procedures

India

Ranks 134 of 183 countries in terms of ease of doing business

Double the procedures and 5X the time required to start a business vs. US

China

Ranks 79 of 183 countries in terms of ease of doing business

More than double the procedures and ~6X the time required to start a business vs. US

2c

Human capital challenge for managers and for store staff training

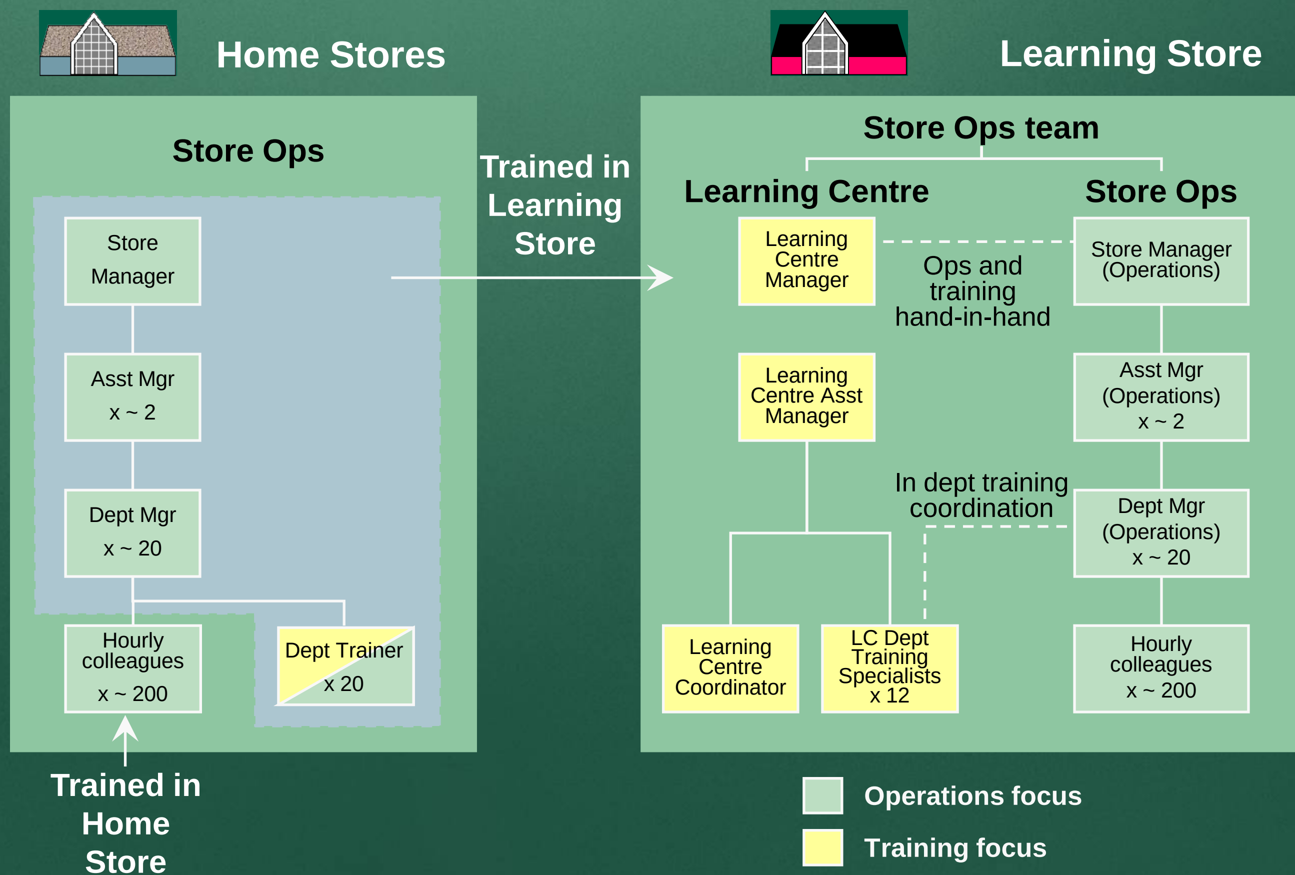
Management

Recruit managers from
- Smaller rivals
- Colleges
- Universities

Train and mentor with experienced managers
- HQ functions
- Store managers

Retain through advancement and remuneration
- Structured programmes

Operations training—e.g., in learning stores



Potential implications for retailers

All markets

Understand what customers value; how their spend plans are changing
- And adapt formats, offers and marketing to address consumer trends

Have and update strategy for the internet and for mobile
- Omnichannel offerings; role for each channel, given use and economics

Developed markets

Crisis is not yet over—customers are still pessimistic, value-conscious
- Opportunities for value- focused formats (hard discount; dollar stores)

But customers are prepared to spend on things that matter to them
- Health (fresh; personal care); home; children; leisure time
- Opportunity to refocus offering and marketing around salient themes

Developing markets

Growth is there to be seized—challenge is how to set up for sustainable and long-term profitable growth
- How to differentiate offering between different regions/markets
- How to integrate stores, web and mobile seamlessly as all grow together
- How to find/train right human resources to manage growth and trading

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