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Asian Gamechangers

Open Your Wallet

Rising Spending in Asia

DBS

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This report is compiled from:
Asia: Who's Consuming?
Asia: U-shaped Consumption Paths and Non-discretionary Spending
The Emerging 8: Asia's Top Retail Brands

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Executive Summary

The emergence of Asia as a regional economic force over the past three to four decades is a story of nations getting their houses in order. The relative political and social stability that most Asian nations now enjoy (compared with a collectively more tumultuous century of Asian instability) has allowed governments to focus on more enduring national development priorities such and infrastructure, finances and education.

The increased productivity and prosperity across Asia have helped lift household income levels and enabled consumers to buy more of what they want in their lives and worry less about what they need. New market segments have flourished and have attracted global capital. In this phase of development, Asian economies have increasingly turned to consumer markets in their own region for growth. During the economic slumps endured by the US and Europe since the collapse of Lehman Brothers, stronger regional demand helped Asian economies remain relatively resilient.

The higher standards of living across the region now mean Asian consumers are significantly more educated, urbanised and sophisticated in their tastes and demands. Greater spending power has given them greater access to market segments that previously focused their attention on mass affluent consumers in the West. Additionally, improvements in infrastructure and industrial production values have helped traditional Asian industries modernise the way they market and distribute their goods and services.

This report looks at the macro-level developments driving Asia's consumer activity and how they have changed Asian consumer tastes and values. It also looks closely at eight home-grown Asian brands that have built successful business models around the Asian consumer.

Opening the Wallet

How Asia drives Asia

Asia holds more than 40% of the world's population and is the driver of an increasing share of its economic activity. The outperformance of Asia's economic growth compared with the US and Europe since the onset of the global financial crisis in 2008 has been well-documented. In the five years since Lehman Brothers collapsed, Asia has "added" 1.25 Germanys to the economic map, right here in Asia. Even with China's slower (7.5%) growth, Asia adds a new Germany every four years. While DBS now expects growth in the US and Europe to improve in 2014 (helping Asia's export-oriented economies), Asia will continue to generate its own growth, driven by consumption. That Asia could drive its own growth used to strike many as preposterous. Today it's conventional wisdom.

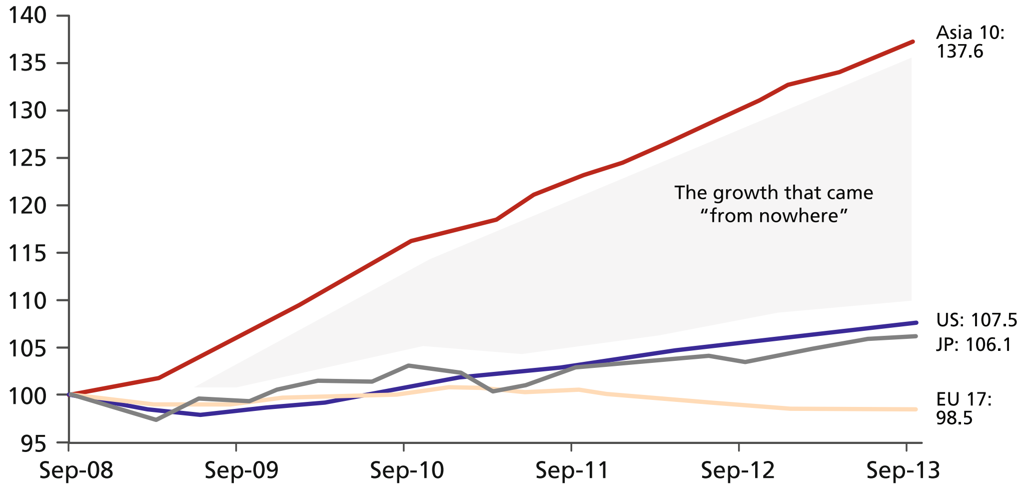
New Pistons of Growth

Consumption is the bread-and-butter driver of any economy, including Asia's. Even with China's notoriously high investment rate, consumption comprises 45% of Asia-10 GDP, compared with 40% for investment. In most countries, consumption comprises a far higher proportion. More than anything else, where consumption goes determines where the rest of the economy goes – especially today with China trying to put more weight on the consumer foot.

Every four years Asia "adds" another Germany, right here in Asia

1 **Real global consumption**

3Q08=100, seas adj



In general, healthcare, recreation and education expenditures are taking a bigger share of household income while food and housing comprise a smaller part of the basket. Rising incomes allow Asians to spend more on things they want and less on things they need. Can it be sustained? Well, it has been for sixty years so the omens are good.

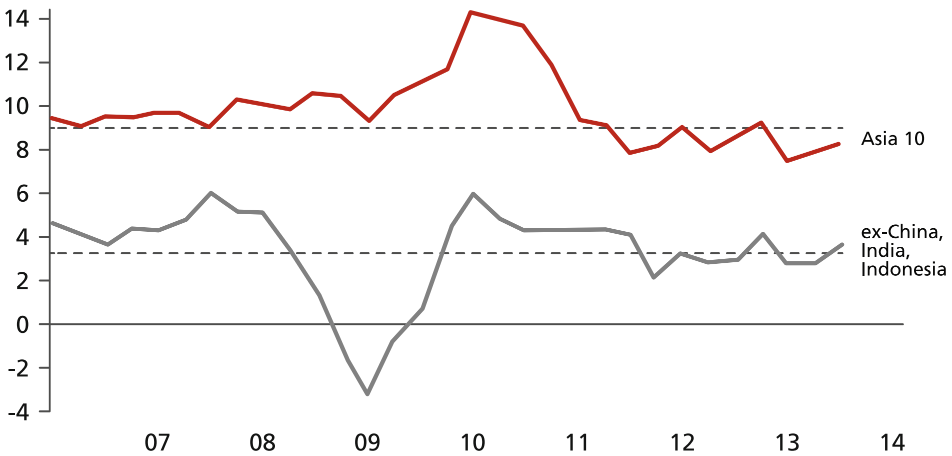
The big picture (chart 1) shows what five years ago most said could never happen. Consumption in Asia continued to plow forward through the biggest global downturn in 100 years – and it did so without the help of the US, Europe or Japan. Since the Lehman Brothers collapse, Asia's consumption has grown by nearly 38%, an average compound rate of 6.6% per year. In the US, it's grown by 7.5% in five years. In Europe, consumption today is still 1.5% below where it was in the September quarter of 2008.

Growth rates are one thing, actual dollars of growth are another. How much has consumption grown by in Asia over the past five years? By nearly half a trillion dollars – US$477 billion to be precise – 2.3-times more than US consumption has grown by (US$205 billion) [1]. Put differently, for every dollar of new consumption the US put on the table over the past five years, Asia put up US$2.30. For every dollar Japan put on the table, Asia added ten more. Whose consumers drive global growth today? Asia's – by a factor of 2.3 to ten.

Whose consumers drive global growth today? Asia's – by a factor of 2.3 to ten

2 **Asia - real consumption growth**

% YoY, qtrly data, ret sales for China



Where is consumption growing the fastest in Asia? In China and Malaysia, followed by the Philippines and Indonesia. Real (inflation-adjusted) retail sales growth in China is running at nearly 12% per year. Total consumption growth (data for which is available only annually), is probably running at an 8%-8.5% pace, given historical differences between the two series and current GDP growth of 7.6%-7.8%. Even so, that's four-times faster consumption growth than in the US.

Malaysia's pace is Asia's second fastest; real consumption growth there has averaged 7.7% on-year in the last two quarters of 2013. The Philippines and Indonesia are not far back (5.7% and 5.3%, respectively). Hong Kong and Singapore occupy the middle ground with real growth near 3% – roughly what would be expected given their high income levels. The standouts on the low side are India and Thailand – both have run into economic and political difficulty of late that threaten the outlook if upcoming elections don't bring clearer and stronger mandates to economic policy.

China's Role

When it comes to actual dollars of growth (as opposed to growth rates), there's no question where the growth is coming from: it's China. Absolute dollar growth depends on the size of the base and the growth rate applied to it – and China takes first place in Asia on both scores. Of the US$477 billion of new consumer demand that Asia generated since Lehman Brothers collapsed in 2008, China has accounted for US$317 billion, or 66% of it. That is, add up all the dollars of growth in all the other countries in Asia over the past five years – and China still delivered twice as many. It's a pretty lopsided contribution scheme. One that will only grow more lopsided over time given China's relatively faster growth rate and bigger base.

This isn't to say that other countries haven't generated much new consumer demand. They have. India generated US$71 billion of new consumer demand since the September quarter of 2008 – 60% more than Japan did over the same time frame [2]. Indonesia's consumption level today is US$475 billion. Put a 5% growth rate on that and you'll generate US$24 billion of new consumer demand in 2014 – about what Japan will generate if its consumption is lucky enough to grow by 1%. South Korea should generate another 50% on top of whatever Indonesia does.

China will only grow more dominant in the years to come

So there is, in fact, a lot of new demand being generated in Asia outside of China. It's just that, in relative terms, China is so much more dominant. And, to repeat, China will only grow more dominant in the years to come.

"Wants" versus "Needs"

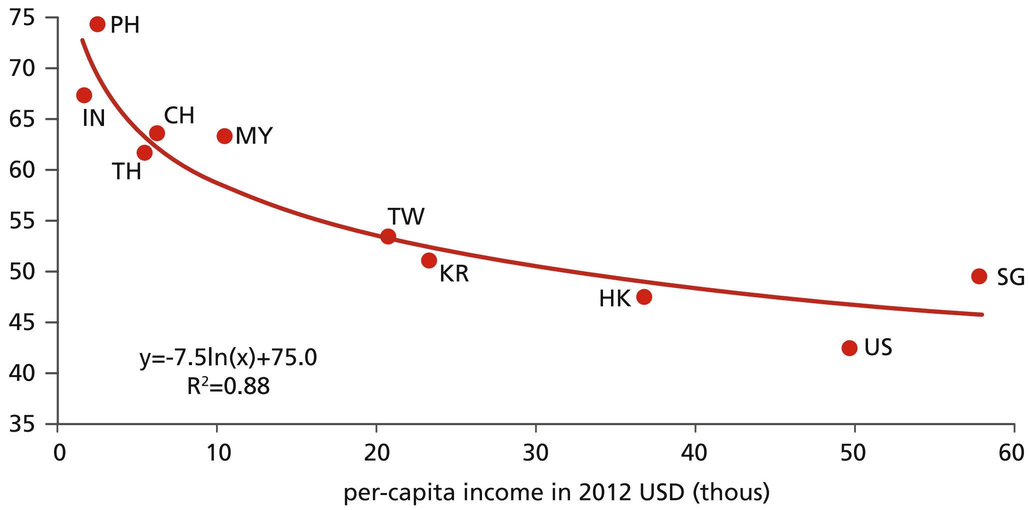
As incomes in Asia continue to grow, consumers will spend increasingly more on things they "want" and less on things they "need". Discretionary spending on "luxuries" like recreation, travel and education becomes more affordable and more attractive relative to "another dollar in the bank". Consumption shares have begun to rise again, but much more slowly than they fell earlier on. The turn north is slow and limited, for as the share of savings and investment falls, income growth must too [3].

The link between nondiscretionary spending and income levels is a strong one. At low income levels, consumers spend most of their money on food, shelter and transportation. Most accept that food and shelter are critical but transportation is important too – if you can't get to work or to market, you can't function very well in any economy, developed or otherwise.

As income goes up, more spending goes to wants and less to needs. At first, that may

3 **Asia10 - income level vs non-discretionary spending**

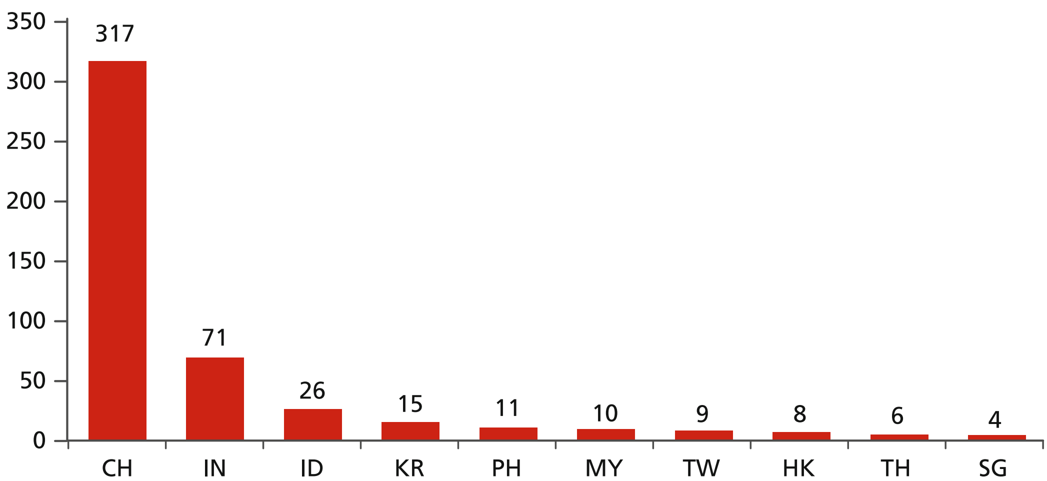
percent share of HH spending devoted to food, housing, T&C



mean more meat and less rice. Eventually it means greater spending on clothing, better healthcare, recreation, education and financial products like insurance, and so on.

4 **Asia10 - incremental consumption growth past five years**

billion 2012 USD, 3Q08-3Q13



Philippine and Indian incomes are Asia's lowest (US$1,500-US$2,400 per person in 2012) and nondiscretionary spending (needs) comprises 70%-75% of total household expenditure.

Incomes are two-to-three-times higher in China and Thailand (US$5,500-US$6,100) and the share devoted to nondiscretionary spending drops to 60%-65%. In Taiwan and South Korea, incomes rise to US$21,000-US$23,000 and spending on "needs" falls to 50%-55% of the consumption basket. In Hong Kong, Singapore and the US, income is the highest and nondiscretionary spending is lowest.

The link is equally strong when you look at individual countries across time. Malaysia's share of "free" spending has risen to 37% of the consumption basket in 2012 from 29% in 2000. By comaparison, wealthier Hong Kong's discretionary share has continued on up to 52% of total spending.

Asia's other countries show the same developments with the exception of Thailand and Singapore, two countries from opposite ends of the income spectrum. Thailand's food share has continued to rise over the years and spending on wants as opposed to needs has fallen since 1990. In Singapore, it wouldn't surprise many to learn that spending on housing, cars and food is every bit as high today as it ever was, in terms of household consumption shares. That still leaves 51% of the basket for spending on more traditional "wants", however, about the same as in Hong Kong, Taiwan and South Korea.

Under the Hood

Where are consumption baskets headed when one looks further under hood? Every-which-way, as might be expected given the rapid growth and wide variation in income levels in the region.

In China, spending on healthcare, transportation and housing is pushing these basket shares north; food and (for now) recreation shares are falling. In fashionable (and richer) Hong Kong, clothing is the big upward mover. Housing expenditures are falling (in relative terms). In South Korea, healthcare and education shares are rising fastest. No surprises there – everyone in Asia puts a premium on education but South Korea's high income level makes such spending affordable and, for better or worse, few countries seem to put more stress on education than South Korea [4].

Education and healthcare are also the top movers in Asia's richest country, Singapore. On the surface, recreation appears to be rising but most of this is attributable to the new casinos and foreign money, not to local consumers. Ironically, given the seemingly never-ending construction of high-end shopping malls, clothing's share in the Singapore basket is falling.

Key Consumption Movers

Recreation is Malaysia's top mover, followed by spending in restaurants and hotels. Rising incomes are making this possible. Spending on housing is falling (in relative terms) as occurs in most countries with rising incomes. Thailand is the only country in Asia where food is taking up a larger share of the consumption budget. In the (relatively low-income) Philippines, transportation – traditionally a nondiscretionary "must-buy" item in budgets of low income consumers – is still moving north. Food, however, is moving south as would be expected. Food is also moving south in India, although it's difficult to highlight any single item that is taking its place.

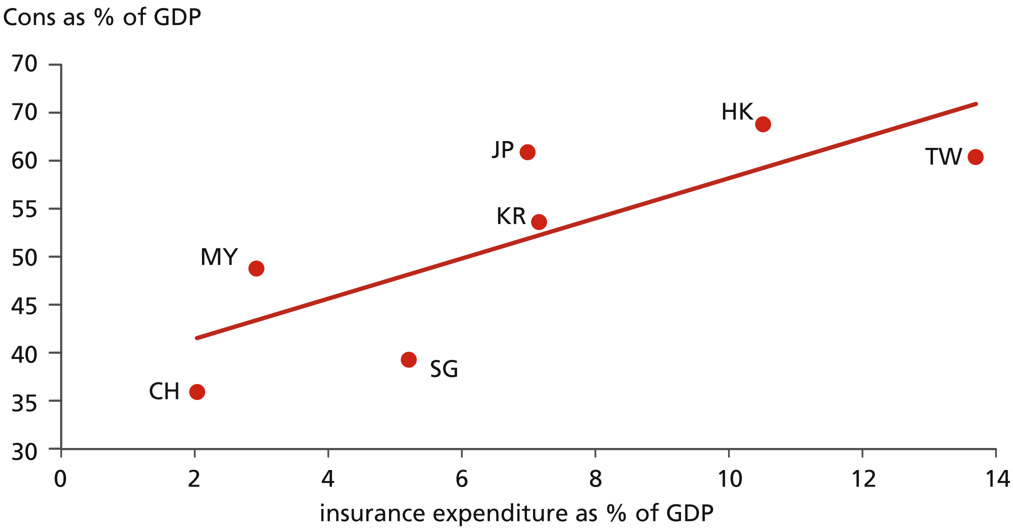
Precautionary Savings and Insurance

The shift from communism to capitalism has removed most of the iron rice bowl that used to insure so many aspects of society

While China's enormous development requirements suggest a high investment to GDP ratio, there is still room for China's consumers to loosen their purse strings a little. The shift from communism to capitalism has removed most of the iron rice bowl that used to insure so many aspects of society. Consumers today insure themselves with large amounts of "precautionary savings" to guard against illness, accidents, death and the high cost of other things like education, which more and more families are funding privately. Self-insurance is extremely inefficient and wasteful from a social perspective and very expensive from a private perspective in terms of lost and forgone consumption.

5

Asia10 - insurance expenditure and consumption as % of GDP



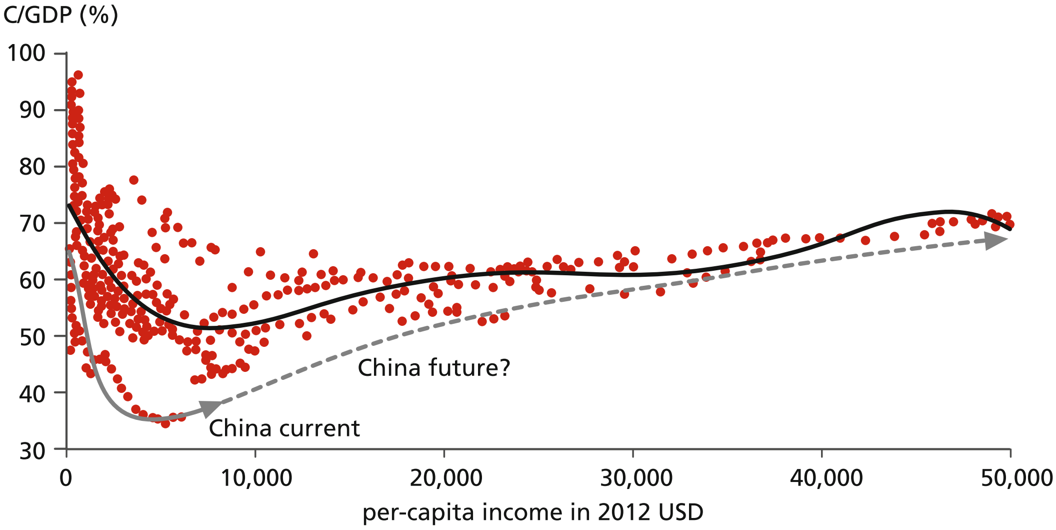
At 2.1% of GDP, formal insurance spending in China is the lowest in Asia, save the Philippines (0.9%) and Indonesia (1.0%). Experience in other countries suggests better insurance schemes and broader coverage could lift China's consumption and would in any event be socially more efficient. Asia's wealthier countries – Singapore, Hong Kong, Malaysia, South Korea, Taiwan and Japan – all have deeper insurance penetration and higher consumption rates to go with it. But the reasoning is more compelling than the statistics – one needs to forego an inordinate amount of consumption to self-insure one's family against serious illness or the death of a breadwinner.

It's Still a Long Road

Better insurance coverage would probably help boost consumption and China's income levels seem destined to continue rising faster than most other countries'. Even with these changes, historical experience shows that China's consumption to GDP ratio could continue to fall for many more years and, when it finally turns, that the rise is likely to be far less than the run. On the supply side, "inward" development of inland regions more in line with the Taiwan model (or the US model) will continue to require huge amounts of fixed investment. China's consumption share in GDP could remain low for decades.

Most, including DBS, expect modestly better growth in the US and Europe in 2014. In the

6 **Asia, US, Japan - consumption share and income levels**



China's consumption share is considerably lower than anywhere else in Asia

US, fiscal headwinds have eased and consensus expects growth will rise to 2.6% from 1.8% last year (DBS forecasts 2.2%). In Europe, many expect 1% GDP growth compared to minus 0.5% last year (DBS forecasts 0.5%).

This can only be good for Asia. Exports to the US haven't grown at all for two years and a small rise in the slope is expected in 2014. Exports to Europe have stopped falling and, with a little luck, this slope should turn modestly northward in 2014 too.

But caution is due. Markets have been overly optimistic on global growth in each of the past four years. And even if the fifth time's a charm, the outlook is still for subpar growth in the US and Europe. Asia will still have to drive its own growth in 2014, just as it has done for the past five years.

From Needs to Wants

Asia's changing appetites

Increasing income levels in Asia have helped nations in the region address some of their most critical social and economic development needs, namely health and education. At the same time, the increased trade with Western markets hungry for lower-cost Asian goods and services has also provided the wealth necessary to continue driving economies in the region up the value chain.

The advancements in standards of health and education have gone hand-in–hand with improvements in transport and communication, enabling a much wider engagement between Asian consumers and global tastemakers. On the one hand, the increased spending power of Asian consumers has given them greater access to goods and services from advanced Western economies. On the other hand, the increased Asian purse has shifted the centre of the global marketing focus closer to the Asian consumer. The increased availability of products and services previously only associated with middle- and upper-class consumers in the West combined with the greater financial muscle of Asian corporations means Asian consumer tastes and preferences are now a lot more important.

To be sure, Asia represents the cultural and linguistic diversity of the three billion consumers that live across about 40 countries as starkly different as Pakistan, the Philippines and South Korea. Defining overarching Asian tastes and values within the context is problematic. However, common to almost all the markets of Asia is the concerted shift away from agrarian economies and the rise of an educated middle class. A handful of Asian economies are well-advanced in this trend while others have only just begun. As China is a driver of Asia's consumption engine, so too it is a key force in driving many marketing decisions in the region. And while the moderation of spending in China (and the rest of Asia) needs to be expected as the consumer sector matures, the taste shifts arising from a better-educated and more empowered consumer remain irreversible.

Luxury Items

In 2013, China overtook Italy and France to become the world's third largest luxury market

In Asia, the rising demand for luxury goods has been one of the most visible signs of economic progress, particularly in urban areas. A typical definition of luxury goods usually centres on a distinction between essential and non-essential items and their associated costs (luxury goods are generally non-essential and more expensive than mass market comparisons). As a trend, consumption of luxury goods in a particular market tends to rise or fall in line with general income levels of that society. In 2013, China overtook Italy and France to become the world's third largest luxury market, according to Euromonitor. The Economist Intelligence Unit predicts that the combined revenue of European luxury houses Kering (PPR), LVMH, Richemont and Hermes derived from Asia ex-Japan will grow to 60.56 billion euros in 2023 from 15.56 billion euros in 2012 [5]. The proportion of their combined total revenue derived from this region will increase over this timeframe to 50% from 30%. As is the case with Asian consumption more generally, China forms a principal part of this phenomenon though growth of luxury consumption in Southeast Asia, South Korea and Japan and India is also considerable.

7 **Forecasting Asia's changing share of global luxury revenue**
combined euro revenue of Kering (PPR) LVMH, Richemont & Hermes

Region	2012	Share (%)	2013	Share (%)	2018	Share (%)	2023	Share (%)
Total	**€51,473.4**	**100**	**€53,555.23**	**100**	**€85,125.9**	**100**	**€121,930.61**	**100**
Japan	€4,970	10	€3,975	7	€4,442	5	€5,017	4
Asia (ex Japan)	€15,597	30	€17,587	33	€36,575	43	€60,559	50

Sources: Respective companies, The Economist Intelligence Unit

Revenue forecast in baseline currency adjusted for exchange-rate movement and nominal private consumption growth forecasts.
China currency and consumption forecasts used as a proxy for Asia ex-Japan.
These are nominal assumptions based on forecast consumption and currency forecasts. They are not tailored company outlooks.

Asian markets now form the focus of the world's largest providers of luxury goods and services following the dramatic slowdown in domestic consumption in the traditional home markets of North America and Europe during the global financial crisis. In recent years, European luxury goods companies have sought to raise equity funding through Hong Kong's capital markets. Luxury brands listed in the city include Prada, L'Occitane, Samsonite and Jimmy Choo. For such companies, Asian markets have offered a compelling combination of increasing affluence and historically low penetration for high-end product makers. Asian listings can help bring companies closer to their focus markets while also increasing the profile of their brand to both consumers and investors in these geographies.

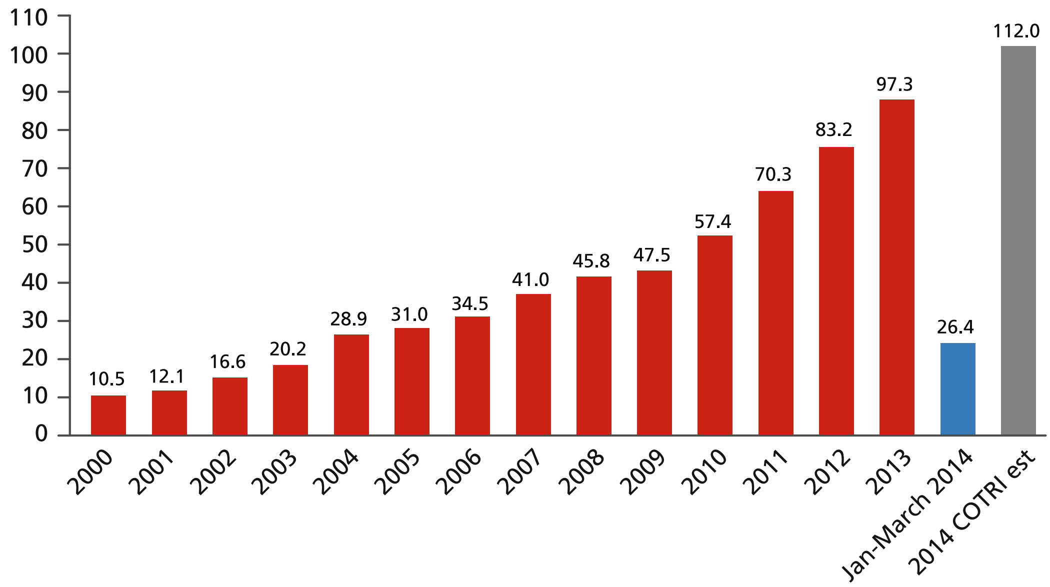
Defining "luxury"

While some goods and services providers are almost unanimously recognised within Asia as luxury brands, the luxury categorisation is a highly subjective one defined by frequently shifting consumer tastes and perceptions, which in turn dictate these products' market position and pricing structure. The age, experience and historic reputation of a brand are often associated with the perceived luxury value of its products as is the country of origin. Input costs and quantifiable quality have a much smaller bearing on an item's perceived luxury value and in some cases are not substantially different to those of mass market goods. As such, the high margins associated with luxury goods and services have prompted many consumer companies to focus on this segment of the market away from the lower margins in the mass market. Anecdotally, Western brands often associated with mid- or lower-consumer segments in their home markets have found a degree of arbitrage in how their brands are perceived in Asian markets [6]. This has enabled them to pitch their offerings to consumers in comparatively higher income brackets than they do in their home markets.

Asian consumption of luxury goods and services has several drivers. Superficially, the Chinese concept of "face" – a sociological construct that connects social value and prestige – is often identified as an intangible cultural driver of the appetite for high-end products (especially among East Asian consumers). There are, however, more quantifiable drivers of this market. The growing numbers of Asian travellers (again, most notably from mainland China) to other parts of the world for work, study and leisure have increased general global brand awareness throughout the region. In 2013, 97.3 million Chinese tourists travelled overseas, up from 10.5 million in 2000. In 2014, this number is expected to hit 112 million [7].

8 **China outbound tourism 2000-2014**

million border crossings - plus COTRI forecasts 2014



Source: China Outbound Tourism Research Institute

Infrastructure

Also critical to the proliferation of luxury goods throughout Asia is the rapid development of efficient and reliable infrastructure. Many luxury goods items – such as leather goods, jewellery and food and beverage – demand appropriate levels of climate control, speed and security in their delivery. Similarly, high-end retail outlets usually depend on the support of globally-integrated first class infrastructure – especially warehouses, airports, high-speed rail and mass transit systems – not only for their supply chains but also high-income footfall. Between 1992 and 2011, China spent US$503 billion on infrastructure projects (or 8.5% of GDP), making it the largest investor in infrastructure [8].

At the same time, Asian manufacturing nations that once relied on Western demand for their products are now tapping demand much closer to home. As income levels rise, many of these low cost manufacturing sectors are looking to push their capabilities up the value chain. Home-grown luxury brands in Asia are not only meeting demand for their goods in their own geographic neighbourhood but are also making inroads into Western markets.

Food & Beverage

In one of our earlier reports, "Imaging Asia 2020", we highlighted that a good part of Asia's income levels will go towards food spending. We estimate that food bills will account for about 26% of household spending in Asia-9 countries by 2020. We also expect the way food is consumed will change, influenced by rising disposable incomes and increasingly urban preferences. We estimate that mass grocery retail spending is destined to grow to US$180 billion by 2020, an increase of over 200% from 2010.

9

Food consumption
size of market in US dollars (billion)

Food consumption	2010	2020E	CAGR%
Asia-9	1,146	2,257	7.0
Asean-5	351	606	5.6
China	676	1,475	8.1
Indonesia	191	339	5.9
Philippines	66	99	4.1
Thailand	59	106	6.0
Malaysia	29	49	5.4
Singapore	6	13	8.0

The emergence of large middle classes in Asia's biggest economies has been instrumental in helping to increase the household purchasing power of these societies. This is profoundly changing both the quantities and diversity of the typical Asian diet. In addition to increased political stability, an improvement in supply chain technology and more open trade agreements with food-source nations, Asian affluence has helped reduce hunger and malnutrition in many of the region's developing economies (though progress is starkly mixed with hunger and access to potable water still problematic in some countries). By 2013, countries such as China, Vietnam and Thailand had lowered their Global Hunger Index scores (released by the International Food Policy Research Institute) by more than 50% from their 1990 readings [9]. This compared with a decline of about a third for the world reading and less than a quarter for sub-Saharan Africa over that period.

Changing diets

Most notable among Asian nations over recent decades has been a decline in the per capita consumption of rice, the traditional Asian staple due to the prevalence of irrigation farming in Asian societies. A report published by the United Nation's Food and Agriculture Organisation in 2004 first identified this shift in Asian diets [10]. Asian households were beginning to consume in greater quantities food derived from livestock (as opposed to seafood) and wheat, fruit from temperate climates (as opposed to tropical climates) and food high in protein and energy. Fast food and beverages were also beginning to make rapid inroads into Asian emerging markets. Another key dietary shift has been the increasing consumption of dairy products in Asia. While dairy has long enjoyed a staple position in the cooking traditions of South Asian countries, higher levels of lactose intolerance in East Asian economies such as China meant dairy consumption was typically lower in these markets. Improvements in dairy processing and transportation technology have significantly increased dairy consumption in China, especially for cheeses, yoghurts and UHT milk.

The convergence between the Asian and Western diets has also brought about a greater diversity in consumer tastes for food and beverage

The general convergence between the Asian and Western diets has not only changed Asian consumption patterns. It has also brought about a greater diversity in consumer tastes for food and beverage. In 2013, China (including Hong Kong) became the world's largest consumer of red wine with 1.86 billion bottles sold in the year, up 136% from 2008 and now ahead of traditional red wine superpowers France and Italy where consumption has fallen (much of China's red wine consumed is actually produced in China) [11]. The World Health Organization projects the amount of pure alcohol consumed per capita in China will rise 23.9% to 8.3 litres by 2025 from 2010. In Vietnam, per capita consumption is expected to rise 66.6% to 11 litres and in Thailand, by 33.8% to 9.5 litres [12]. In addition to a rapid push East by Western restaurant chains and retailers, Asian food franchise have also proliferated across the region, driven by dramatic improvements in food safety regulatory frameworks. Restaurant chains in Asia not only draw on Western cuisine styles (such as burgers and pizzas) but have also spread the complex diversity of regional and subregional Asian food styles (such as Korean, Thai, Cantonese, Japanese and Vietnamese) across geographic markets. Such restaurant chains typically operate through franchise networks and licensing agreements across different geographies.

Localisation

While global food corporations do enjoy a high degree of brand recognition across the region, most have had to invest in localisation strategies to increase market penetration and customer loyalty as competition increases. Iconic burger chain McDonald's established a footprint in Asia's now developed markets in its early years of global expansion and has in the past two decades also pushed into emerging markets. In 2004, it crafted a standardised menu across its global operations but also gave franchises at the country-level greater latitude in tailoring menus to local tastes, which included the introduction of new menu items [13].

As with other consumer sectors, increased travel and business, both into and out of Asia, have introduced a much wider variety of food types into the region's food and beverage sector. And increasing household incomes and investment in Asia's transport infrastructure have changed the way in which food is processed and delivered to consumers across the region.

Health

In 1970, the average Asian life expectancy was 56.9 years. In 2010, it was 72.2 years. More specifically over this period, China's life expectancy has increased to 73.1 from 61.7 while South Korea's increased to 80.7 from 62.1 [14]. The dramatic improvements in health across the region have been helped by both the rising household incomes and the increased government spending on public health. According to IMS Institute for Healthcare Informatics, China's spending on medicines is expected to rise to as much as US$165 billion in 2016 from US$66.7 billion in 2011. Its forecast compounded annualised growth rate over this period of 15%-18% would be among the fastest in the world, and significantly higher than the expected rates of 1%-4% for both Japan and the US [15].

10 **Life expectancy at birth**

Country	1970	2010
Japan	72.0	83.0
Hong Kong	71.0	82.7
Singapore	67.7	81.3
South Korea	62.1	80.7
OECD	70.1	79.8
Vietnam	49.4	74.6
Malaysia	61.6	73.8
Thailand	59.7	73.8
China	61.7	73.1
Asia-22	56.9	72.2
Indonesia	47.9	68.5
Bangladesh	44.2	68.3
Philippines	57.4	68.2
India	49.3	64.8

Source: Organisation for Economic Co-operation and Development (OECD)

Increased public health and safety campaigns and higher levels of education have pushed up demand for heath services beyond the primary care typically provided by government health systems. Changes in Asian lifestyle – particularly changes in diet and an occupational shift away from manual labour – have also changed the kinds of treatments consumers now seek. Healthcare in an Asian context not only transcends the most basic requirements for the prevention of disease and injury, it is also fundamentally integrated with the pursuit of a more fulfilling and productive life.

Asia's health industry has been bolstered by the transition in emerging markets to universal healthcare systems

Asia's health industry has been bolstered by the transition in emerging markets to universal healthcare systems (using the broadest definition of the concept). At one level, decades of trade surplus accumulation and improved sovereign credit ratings have helped increase the government investment in these services while at another level household savings have increased the amount Asian consumers are spending on their health. Inevitably, government policies and a deeper penetration of insurance providers have aided the formation of advanced private healthcare systems and more sophisticated levels of price pointing within the industry.

Medical tourism

This in turn has also led to the rise of Asia's medical tourism industry, where high-net worth clients can seek professional treatment in high-end facilities in centres such as Singapore, Malaysia, Thailand and South Korea. The medical tourism trade meets the needs of two kinds of markets. The first is the provision of a level of treatment to clients who are unable to access such procedures in their own countries. The second market seeks a cost advantage in a country where treatment is substantially cheaper than what they could get in their home country. Cosmetic surgery provides a considerable pull for many medical tourists headed to Asian markets. According to statistics derived from the International Society of Aesthetic Plastic Surgery, South Korea has the highest number of plastic surgery procedures per head in the world, which is driven by both high domestic and foreign demand [16].

Traditional Chinese medicine

While the Asian health industry has in large part been shaped by emerging affluence, it is just as critically defined by the millennia-old medical traditions inherent in the various cultures of the region. Traditional Chinese medicine (TCM) in some countries provides a parallel healthcare system to systems based on Western clinical models. The provision of both TCM goods and services has developed beyond a traditional cottage industry to the retail chain model. New regulatory frameworks in countries in Asia and beyond have sought to introduce new standards to the sector but also provide recognition of the important role this therapeutic practice plays not only in Chinese communities but also increasingly in non-Chinese ones.

Rising Asian Retail Brands

We scoured countless retail names, big and small, in our search for Asia's best "born & bred" retail brands. To be included in our shortlist, firstly, the brand must be Asian-owned and originate from Asia, not be a franchisee or distributor. We believe owners will undoubtedly benefit if the brand succeeds, whereas a franchisee's fate lies also with the brand owner.

Secondly, the candidate should have presence in three or more countries, with more than 20% of total revenues derived internationally from outside its home market. But, for brands from countries with a domestic population of more than 50 million, we look for a historical three-year average annual topline growth of more than 10%. Lastly, for simple reasons of sustainability, the company must be profitable.

We see three broad discerning consumer trends. Firstly, as income levels increase in emerging markets, so do "needs" and "wants". Secondly, we expect to see a higher demand for lifestyle and services requirements. Thirdly, we expect to see demand for food per capita increase.

Our review looks at factors such as industry and country trends, products, financials and the companies' ambitions for growth. We believe these are crucial factors that will allow the companies to thrive further and ride on Asia's growing consumer trends.

Five Important Brand Elements

1

Focus – Brand identity, clear positioning and discipline

Brands allow corporations to connect with consumers. They reflect identities of corporations and their image, which are represented by the products, services and the promises companies make to consumers. Brands typically focus on a defined set of product and service offerings to help streamline how customers perceive the corporation. Successful international brands look to target specific market and customer segments.

2

Brand portfolio and representation – Owners of brands are preferred

We believe companies that own brands will be the bigger beneficiaries of regional growth. Franchise and distribution models allow brands to penetrate new markets quickly with the help of local distributors and franchisees' resources, while limiting new market risks. Franchisees and distributors also have the opportunity to operate a retail brand despite not being a brand owner.

That said, we prefer retailers that own brands rather than franchisees or distributors of brands. Margins tend to be better and more likely to be sustainable over the longer term for brand owners, despite start-up costs and brand investments, particularly in the initial phases. Owners will benefit directly when a brand succeeds, whereas franchisees and distributors are more dependent on the fate of the ultimate brand owner. Furthermore, brand owners have the flexibility to cater to the preferences of their local market. For instance, Jollibee was able to modify its menu to suit the Philippine palate for sweeter, spicier, and saltier tastes compared with its competitor.

3

Integration – Capturing the value chain, control quality

Brand owners must have some form of control over the manufacturing and production of their products, whether internally manufactured or outsourced. This is also important from a quality standpoint. We think that companies with little control of their manufacturing partners, in particular an outsourced third party, tend to be at the mercy of their supplier's capacity and quality. Most ideally, brands should control the manufacturing themselves. However, this is not typically the case, as integrated manufacturing costs more in terms of resources and risks.

Companies like Jollibee, BreadTalk, MK and OSIM's TWG food and beverage division have embraced the central kitchen concept or commissary system. A push factor for this is to extract synergies, but it also aids in ensuring the consistency of their products, particularly those with a wide network of outlets. OSIM, for instance, has a stake in its manufacturer that ensures it has control over production, product innovation and new features.

4

Service and value – Innovation, product offering, value for customers

Consumers in developed markets expect more from product and service providers. Value, product and service quality are therefore synonymous if brands desire to capture and promote customer loyalty. According to a Forbes magazine CMO Network article, consumer expectations over the past five years have increased by 20% on average, while brands have kept up by only 5%, leaving a big gap between "what's desired" and "what's delivered". The ability of brands to go the extra mile to fulfill customers' expectations in terms of service, product quality and value will put the brands at a significant advantage over their competition.

Innovation is a key to success for brands over the longer term, particularly in a consumer market that seems to be increasingly fickle. Take OSIM for instance. A key to its success is its continuous innovation, as seen from its product launches. On average, we estimate that OSIM will have at least one or two massage chair launches each year, coupled with numerous smaller products.

5

Enterprise – Regional growth

Brand owners need to be enterprising with strategies derived for regional growth. Companies need their brands to grow beyond their local market in accordance with developments in various regional markets. Different markets enjoy different stages of retail evolvement and exhibit different consumer behaviour.

Products and services and growth strategies must cater specifically to markets in accordance with the markets' stages of growth. For instance, retail formats are modernising in developing Southeast Asian markets such as Vietnam, Cambodia and Myanmar. At such an economic development stage, increasing appetite for food and quality would be sweet spots. Conversely, in more developed countries where incomes are relatively higher (Singapore, Hong Kong and Taiwan), lifestyle products such as fine dining, luxury goods, travel and tourism, and cross-border shopping would enjoy better demand.

The brands/companies we feature have mapped out or shown signs of lofty ambitions. For instance, Jollibee, which is already a market leader in the Philippines, has put forth a target to grow its outlet count to 4,000 by 2020, from about 2,700 today. Even smaller companies, such as EIG, are seeking to increase their corporate salons to 100 within the next two-to-three years, and to expand into Indonesia. While expansion will entail higher risks, we believe its focus and existing business will enable it to stomach gestation losses in the intermediate term.

Emerging Eight

OSIM

Osim is Asia's leading brand in wellness and healthy lifestyle products. It creates, designs, develops and markets wellness and healthy lifestyle products through its specialty retail outlets worldwide. The company's products include massage chairs, foot massagers, neck and shoulder massagers, head massagers, fitness equipment, diagnostic equipment, vitamins and supplements, and luxury teas.

OSIM was founded by Ron Sim in 1979. Its first outlet named R Sim Trading Company was set up at People's Park Complex, and sold general goods ranging from pots and pans, knives, drying rods, to itch-scratchers, wood massagers and foot-reflexology products. After the 1985 recession, OSIM focused on healthcare and lifestyle products and evolved into what it is today.

Home market:	Singapore
Home market population:	5.3 million
Market capitalisation:	US$1.484 billion
International revenue:	Approximately 80%
Brands:	OSIM, TWG Tea, RichLife, Brookstone
Franchise:	GNC
International exposure:	China, Malaysia, Hong Kong, Taiwan, Middle East
Country/Industry trends:	Focus on Asia and Middle East. Consumer spending in China to rise, in which OSIM has 50% revenue contribution. Growing wealth in Asia Pacific bodes well for OSIM

Product:	Premium massage chairs with continued introduction of new models to sustain earnings. Create new segment for smaller-sized chairs. Has portfolio of other health/luxury products, e.g. TWG Tea
Ambition:	Aiming for TWG Tea's revenue to reach S$1 billion in ten years, and look to expand inorganically within Asia
Others:	Limited competition in a niche space, and has extensive network of 600 points of sale across Asia Pacific

BreadTalk

BreadTalk Group is engaged in the operations and franchising of bakery/confectionery outlets, food courts and restaurants across the region.

BreadTalk was founded in 2000 in Singapore by George Quek, its executive chairman, and was listed on the Singapore Exchange in 2003. Since inception, the Group has grown rapidly and now has a network of over 800 outlets in 15 territories.

Home market:	Singapore
Home market population:	5.3 million
Market capitalisation:	US$239 million
International revenue:	Approximately 50%
Brands:	BreadTalk, ToastBox, Food Republic, RamenPlay, Bread Society
Franchise:	Din Tai Fung
International exposure:	China, Southeast Asia, Hong Kong, Middle East
Country/Industry trends:	Bakery retail market is projected to grow by a compound annual growth rate of 7.5% (2013-2017) to US$12 billion in the Asean markets that BreadTalk operates in
Product:	Operations and retailing of bread confectionery, food atriums and restaurants. Main brand is BreadTalk with strong growth in the region, particularly China
Ambition:	Achieve 2,000 outlets and S$1 billion revenue by 2018
Others:	The cost environment led by rental and staff cost. Mitigating it through workflow process and technology

Jollibee Foods Corp

JFC develops, operates, and franchises quick-service restaurants primarily under the "Jollibee" trade name. The company, through subsidiaries, also operates other quick service restaurants under various trade names.

Jollibee was founded by Tony Tan Caktiong and family in the late 1970s in the Philippines, as an ice cream parlour. By September 2013, the Group had 2,696 stores under nine brands in 14 countries.

Home market:	Philippines
Home market population:	96.7 million
Market capitalisation:	US$3.888 billion
International revenue:	Approximately 23%
Brands:	Jollibee, Chowking, Mang Inasal, Greenwich
Franchise:	–
International exposure:	China, US, Southeast Asia, Middle East
Country/Industry trends:	The Philippine food service value is estimated at US$10 billion, of which Jollibee holds 11%. Compound annual growth rate of 9.3% from 2003-2012. Rising disposable income in the Philippines, and increased shopping centres, retail infrastructures
Product:	Fast food service under Jollibee, Chowking serving the mass market. Market share is larger than McDonald's, the world's leading fast food chain
Ambition:	Target of 4,000 outlets by 2020, in the Philippines and overseas. To increase overseas contribution to 50%, from 20%, in five to ten years' time
Others:	JFC managed to succeed in a competitive market with 21% market share of the fast food market in the Philippines

Esthetics International Group

Esthetics International Group (EIG) is a market leader in the beauty and wellness industry in ASEAN and Hong Kong. It has been in the industry for 29 years.

Home market:	Malaysia
Home market population:	29.2 million
Market capitalisation:	US$67 million
International revenue:	Approximately 40%
Brands:	Aster Spring, Clinelle
Franchise:	Dermalogica, Tisserand, Davines, Averine
International exposure:	Hong Kong, Malaysia, Thailand, Singapore
Country/Industry trends:	Asean beauty specialist retailers' market size estimated at US$2.8 billion
Product:	Distributor of Dermalogica professional skin care products. Has a network of 70 skin care salons and kiosks in Malaysia, Singapore, Hong Kong and Thailand (AsterSpring)

Ambition:	Targets to increase number of corporate salons to 100 within two-to-three years. Looking to expand into Indonesia
Others:	Rental and staff costs are the largest operating costs for EIG, given the need to operate in prime locations

Sa Sa

Sa Sa International Holdings Ltd is among the leading cosmetics & skin care retailers in Asia. Established in Hong Kong in 1978 and listed on the Hong Kong Stock Exchange in 1997, Sa Sa currently operates more than 270 stores in Asia, selling more than 600 brands of skin care, fragrance, make-up, hair & body care products, and health & beauty supplements.

Home market:	Hong Kong
Home market population:	7.2 million
Market capitalisation:	US$2.541 billion
International revenue:	Approximately 20%
Brands:	(House brands) Sasatinnie, Suisse Programme, Methode Swiss
Franchise:	(Exclusive distribution) La Colline, Elizabeth Arden
International exposure:	China, Macau, Taiwan, Singapore, Malaysia (sasa.com also captures business from other countries worldwide, including South Korea, Australia, US, Canada)
Country/Industry trends:	North Asia and developed Asean countries. Rising household affluence in China fuels rising spending power of tourists in Hong Kong/Macau
Product:	Day-to-day skin care, cosmetics, body and hair care products which are more resilient. Has more than 100 exclusive brands, accounting for 45% of Group's revenue
Ambition:	On track to achieve a store count of 300 by 2014, with continual sales network expansion ahead
Others:	High cost environment from rental and staff, mitigated by stronger margins from exclusive products

Giordano

Giordano is a casual wear retailer with over 2,600 outlets in Asia, Australia and the Middle East.

Home market:	Hong Kong
Home market population:	7.2 million
Market capitalisation:	US$1.10 billion
International revenue:	Approximately 80%
Brands:	Giordano, BSX, Giordano Ladies, Giordano Junior
Franchise:	–

International exposure:	China, Taiwan, Southeast Asia, Middle East, South Korea and Australia
Country/Industry trends:	China's clothing market is projected to grow at a compound annual growth rate of 12% (2013-2016) and under-penetration in emerging markets (India, Indonesia, Middle East)
Product:	Focus on quality, and incorporating functional apparel in its design. Adopts local "fast marketing" initiatives
Ambition:	Expansion into new markets such as India, and integration of Middle East business. Targets 15% e-commerce sales in China
Others:	Keen competition in casual wear. Strong penetration is a key advantage

MK Group

Thailand's leading operator of full-service restaurants offers Thai-style suki under the "MK" brand, and also owns a Japanese restaurant chain called "Yayoi". They also own several other Thai restaurants and a coffee and bakery shop.

The company started its first suki restaurant in 1986. It was officially established as MK Restaurant Group by Rit Thirakomen and Somchai Hanjitkasem in 1989. In 2006, they expanded and started operating Yayoi.

Home market:	Thailand
Home market population:	66.8 million
Market capitalisation:	US$1.54 billion
International revenue:	Approximately 0.45%
Brands:	MK, MK Gold, Yayoi, Hakata, Miyazaki, Le Siam, Na Siam and Le Petit
Franchise:	–
International exposure:	Japan, Singapore, Vietnam and Indonesia
Country/Industry trends:	Key Asean market full-service restaurants valued at US$97 billion by 2017 (Euromonitor). MK currently has 11.7% (2012) market share in Thailand, up from 6.5% in 2007
Product:	Operates full-service restaurants with 551 outlets throughout Thailand across eight brands. Has operations and franchises in Singapore, Japan, Vietnam and Indonesia
Ambition:	Targets to open 60 new outlets per annum, and plans to acquire new brands for domestic and international rollout
Others:	Keen competition in food industry with new entrants, but MK's leading market share and track record should enable it to stay at the forefront

PT Sumber Alfaria Trijaya

Alfamart was established in 1989 as a cigarettes and consumer goods trading and distribution business. In 1999, it entered the retail sector with the acquisition of 141 Alfa minimart stores, which were subsequently rebranded to "Alfamart". It is a leading mini market chain operator in Indonesia with over 8,000 stores across the country serving more than 2.3 million customers daily.

Home market:	Indonesia
Home market population:	247 million
Market capitalisation:	US$1.566 billion
International revenue:	0%
Brands:	Alfamart
Franchise:	–
International exposure:	Announced plans to open stores internationally but no exposure at present
Country/Industry trends:	Rising middle class in Indonesia and increasing urbanisation, projected to increase to 48% in 2020 from 44% in 2010, according to UN estimates
Product:	Operation of modern retail chain of supermarkets and convenience stores with more than 8,000 outlets across Indonesia
Ambition:	Plans to expand 800-1,000 stores a year and to penetrate areas outside of Jakarta
Others:	Rising competition and regulatory limitation on grocery retail expansion

Notes

[1] In constant 2012 US dollars.

[2] *Ibid.*

[3] Demographics also play a role. Countries with older populations tend to consume relative more and save less. This is particularly important in Japan's U-shaped consumption path.

[4] Household spending on education is not the same as what the country as a whole spends education as a percentage of GDP. Consumer spending on education is in addition to whatever governments spend at the national / local level.

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