



Understanding Southeast Asia's Emerging Middle Class

Digital opportunities give consumers many more choices.

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Nguyen Thi Mai Linh was forced to drop out of school but now juggles motherhood and a flourishing online cosmetics business from her home in Hai Phong, Vietnam. After putting her young child to bed at night, Nguyen spends another hour responding to messages from her customers, tracking competitors' products and prices, and keeping up with beauty trends. She says she is proud that she can now afford to buy baby formula and diapers for her child.

In Surabaya, Indonesia, Fadli is living his dream by selling cookies online. In Bucalan, Philippines, Randy left teaching to become an app-hailing driver so that he could boost his income and devote more time to his wife and daughter. In Johor Bahru, Malaysia, a 25-year-old truck driver named Shahan supports his parents and seven siblings back home in his village—but spends his weekends on bike tours with friends he made from online biking communities. In Khon Kaen, Thailand, 35-year-old Ong wanted to be her own boss—so she became an online reseller of coffee and then started a successful dog-breeding business.

Ready or not, a huge middle class is emerging throughout developing Southeast Asia. Fueled by the rising incomes that result from hard work and ambition, 50 million new consumers will join the ranks of the middle class in Indonesia, Malaysia, the Philippines, Thailand and Vietnam by 2022, contributing to the region's \$300 billion middle-class disposable income. The middle class will expand to include 350 million people and continue on its upward trajectory. It is propelled by greater access to the flourishing digital economy and a view of the broader online world outside their visible community, and by the lasting positive effect that happens when people move out of poverty and watch their community of neighbors, family and friends achieve their dreams—and see the possibilities for themselves. Also contributing to this expansion of the middle class are various ASEAN pacts aimed at regional economic integration.

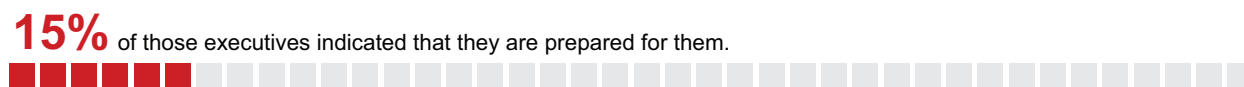
To understand the evolving opportunities and the impact this phenomenon will have on companies, we spoke with 40 business leaders across industries throughout the region. While 77% say this new group of middle-class consumers could help them significantly grow their business, only 15% of those executives indicated that they are fully prepared for them. More than half of the executives say they lack the right products or services, as well as go-to-market strategies and sales channels for these consumers. Fully 60% say they lack a clear marketing strategy (*see Figure 1*).

How this market is different

These findings led Facebook and Bain to collaborate on an extensive research project to learn about Southeast Asia's emerging middle class from every possible angle. That included 80 in-home interviews across the region and 160 peer hangouts. Separately, Bain surveyed 12,000 digital consumers across the region. The research provided a deep profile of Southeast Asia's newest consumer segment, which is quickly evolving with expanded digital access. We learned who they are and the issues they face, as they struggle with—and grow from—the mounting tension between their traditional environment and one that is broadened with new digital access to sources of information, communities and services. Our research enabled us to take a first step toward helping companies determine how best to serve this exploding market of consumers.

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Figure 1: How prepared are business leaders for Southeast Asia’s emerging middle class?



Source: Bain & Company survey of Southeast Asia business leaders, (n=40)

Just as consumers in developing Southeast Asia grapple with the tug of war between traditional and modern cultures, companies face a similar challenge. Many have traditionally grown their businesses by focusing on affluent or upper-middle-class consumers in narrow urban corridors. Now, they must learn how to reach and appeal to a new group of consumers with distinctly different profiles, consumption habits and media behaviors.

Among the many changes: Southeast Asia’s middle class is far more dispersed than many business leaders realize. Increasingly, they reach across urban and rural settings. While much of the growth takes place in the capitals of Jakarta, Bangkok, Kuala Lumpur, Manila and Ho Chi Minh City, an equal number of households are joining the middle class from the region’s Tier-2 cities—places like Ambon and Samarinda in Indonesia, Chanthaburi and Lop Buri in Thailand, Imus and Santa Rosa in the Philippines, Can Tho and Thu Dau Mot in Vietnam, and Alor Setar and Kota Kinabalu in Malaysia.

Moreover, many executives still hold notions that this segment comprises unsophisticated consumers who are highly cost-driven, shop primarily in traditional channels and favor inexpensive sachet packages designed for low-income shoppers. They see them as primarily influenced by word of mouth, or by TV and other traditional channels of communication. The reality is that the digital era has brought with it not only a change in consumption behavior but new and evolving influences. These and other misconceptions create challenges for companies hoping to grow along with Southeast Asia’s rising middle class.

A world of new choices

The emerging middle class is embracing the online world and taking full advantage of the greater opportunities that come with digital exposure. As a result, their growing ranks are rapidly changing the game in all industries.

As they increase their digital usage, these consumers widen their worldview beyond the limits of work, neighborhoods or traditional expectations. They now enjoy a huge privilege that previous generations did not: greater power to choose. They can choose the person they want to be, the people they want to be with and the passions they want to follow.

Our interviews across the region helped us identify four common themes.

1. Power to choose identities

Today's emerging middle-class consumers are able to define their own modern identity through the power of digital connectivity, while still maintaining strong ties to their traditional cultural backgrounds. These blended identities allow them to express and shape new points of view.

"The benefit of having this business is that I can go on vacation without affecting my family's finances. It's important to have priorities in life. For me it's my family and my child."



Ninda
Malang, Indonesia

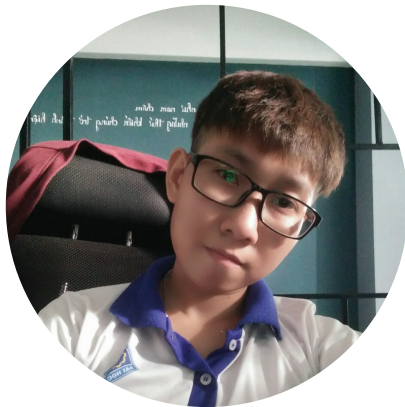
Being a mother to a three-year-old girl does not stop Ninda from pursuing her ambition of running her own Muslim fashion business. Ninda opened an online shop as well as a physical store, all while juggling her duties at home.

Ninda explains that owning the shop gives her an identity beyond that of a wife, mother and daughter. She's been savvy in using dual online and offline strategies to bring in new foot traffic to her brick-and-mortar clothing store and at cross-promoting her clothes on social media and online marketplaces. She knows that the key to success is to be persistent and to keep a look-out for what will interest her customers the most. She achieves this by being active on multiple social platforms and following fashion influencers.

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Randy
Bucalan, Philippines

It wasn't a tough decision when Randy made the switch from teaching to becoming an app-hailing driver. Now he has more income and flexible working hours that allow him to spend more time with his wife and daughter.

**Thanh Nga**
Can Tho, Vietnam

Thanh Nga may still be a student, but she already has started several online ventures selling products that she sees trending on social media. Running these businesses gives her confidence and independence. Her hope is that one day she will be viewed as an experienced and successful businessperson.

2. Power to choose communities

Distance does not stand in the way for members of Southeast Asia's emerging middle class. Our research illustrates how online communities bring people together, uniting those with shared passions, aspirations and challenges. These online communities function as support systems that influence members' behaviors, attitudes and perspectives, opening up the world beyond their village community, or *kampong*.

Frenalyn
Davao City, Philippines

Friends helping friends. That is the simple philosophy behind Frenalyn's approach to supporting her fellow moms. As a mother of two children (with a baby on the way), she has benefited from the advice she has received from online communities and parenting apps. Now, she is dedicating herself to giving back. For example, when one mother needed help feeding a baby with a cleft palate, Frenalyn was able to connect her to a friend who could recommend a breast pump.



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Hien
Bac Ninh, Vietnam

Hien works as a cashier at a local Korean restaurant and considers herself to be the ultimate fan of Korean culture. Thanks to a proliferation of social media groups and online videos, she was able to teach herself the Korean language and advance toward her goal of working for a popular Korean technology brand.

3. Power to choose dreams

The pursuit of personal passions, long considered a luxury in developing Southeast Asia, is now not only possible but is also celebrated. Digital exposure is helping to raise members of the emerging middle class above their socioeconomic status. It spurs brand awareness and the desire to travel. It allows them to project a better image of themselves and to pursue passions far outside of traditional pathways.

Fadli
Surabaya, Indonesia

Growing up, Fadli always wanted to attend culinary school, but his parents discouraged the idea, viewing it as an unconventional dream for an Indonesian man. However, his passion for the culinary arts never faltered. Despite the time constraints of his day job in marketing, he started learning baking techniques from his wife. Together, they launched a thriving cookie-baking business, which the couple promote on social media to a rapidly growing community of followers.



Elyn
Johor Bahru, Malaysia



As a working mother with two young boys, Elyn is not satisfied with her day job at a real estate company, so she pursues her after-hours passion of selling clothes online. Her motivation stems from wanting to generate enough income to not need to rely on her husband. The business has enabled her to buy a high-end refrigerator.

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Ong
Khon Kaen, Thailand

After leaving her previous job, Ong felt restless. Yearning for the financial independence she previously enjoyed, she decided to embark on online entrepreneurship. Her first venture was to become a reseller of coffee, which she actively promoted online. Since then, she has launched other new businesses, including dog-breeding and transportation services. The online world gives Ong possibilities that were previously available only to big companies: She can swiftly jump on opportunities as they emerge, and quickly test and learn without a big financial commitment.

**4. Power to choose joy**

Our findings reveal that members of Southeast Asia's emerging middle class have become more sophisticated in what they buy, and how they buy it. Exposure to digital marketplaces and social media sites has led them to seek out and purchase whatever brings them joy—whether it is travel, cosmetics, new experiences or branded goods. They use social media to elevate their sense of confidence and their sense of status and to display their achievements.

**Cuong**
Can Tho, Vietnam

As a rice trader, 25-year-old Cuong works seven days a week in the business he runs with his brothers. As the business has grown, his life has become more hectic. Cuong feels that he deserves time to de-stress. This notion of taking time off is alien to his parents' traditional point of view. He has been savvy enough to save money to take short trips with his fiancée to places that he's learned about online.

"I travel to the nearby islands. I also go for some long trips. Get together with friends and plan. It helps to change the air and atmosphere. It is a new environment and you feel refreshed."

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Jay Paul Faustino
Davao, Philippines

Jay's greatest joy comes from skateboarding. When he is not at his call-center job, he creates videos of himself and his friends skateboarding, to publish on his own channel. Jay recently bought a brand of sneakers that was endorsed by Riley Hawk, a famous skateboarder he follows on social media.

**How to sell to Southeast Asia's emerging middle class**

New choices for consumers means new choices for companies. Our research has helped us identify the fundamental decisions that companies can make to grow along with Southeast Asia's emerging middle class:

Choose products

Winning brands are outpacing their rivals by simultaneously appealing to middle-class consumers' desire for new experiences while understanding how these consumers are caught between their heritage and *kampong* upbringing and the modern world. These companies also take advantage of the increasingly sophisticated pockets of demand for high-end products which are spread out over a huge region. And they rely on technology to help serve this demand. Indeed, their businesses flourish in Southeast Asia because they sell online, as opposed to going the expensive alternative route of stocking offline stores.

This approach has helped spur the success of a host of companies. Indonesia's GarudaFood is growing by constantly innovating and introducing more premium products—developing new biscuit flavors, for example. It recently launched a highly successful green tea latte product exclusively on Tokopedia. Wardah is an Indonesian cosmetics company that achieved phenomenal growth by focusing on halal beauty products. It initially targeted ambitious, modern hijabis, but has expanded to gain popularity among those who don't wear the garment. For its efforts, Wardah has captured 30% share of the make-up market in Indonesia.

Choose paths

Southeast Asia's emerging middle-class consumers are aspirational, "lean-forward" audiences. Successful brands can create a lot of pull by engaging well with digital communities (e.g., diaper websites) and by catching these consumers on the move. Also, it's possible to target them very granularly for their more

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differential spending patterns. In Malaysia, FashionValet boosted conversion rates when it used exit intent technology and behavior targeting to appeal to a segment of visitors to the FashionValet Malaysia site. The best brands tend not to rely solely on passive channels—but if they do, they capture consumers during mobile moments. Pond's accessed more than 12 million women through its location-based campaign that spoke to young women commuters on the dangers of pollution to their skin. The campaign helped contribute to 5% revenue growth for Pond's.

Choose channels

Brands need to move beyond traditional offline and online channels. Often, that means social commerce plays a role, beyond major e-commerce sites. Thai fashion purveyor Hamburger Studio has achieved 100% annual growth by promoting its products on mobile commerce platforms and offering engaging and visually immersive mobile experiences. Brands also invest in offline setups to create true experiences for targeted consumers. In Thailand, Pomelo came to life as an online fashion site but now has identified 800 locations for potential micro-retail stores in which customers can experience the products before buying.

As Southeast Asia's middle class grows along with digital capabilities, companies have a unique opportunity to reach a vast new community of consumers just as they are gaining exposure to different brands and developing preferences. The steps that consumer goods companies take today will shape consumers' choices for the decades ahead.

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