THE AGE OF ASEAN CITIES
FROM MIGRANT CONSUMERS TO MEGACITIES
MARCH 2015
FROM ISOLATED RURAL VILLAGES TO HIGH-RISE MEGACITIES
SOUTHEAST ASIA HAS IT ALL
TO SAY THAT ASIA IS UNDERGOING RAPID CHANGE IS AN UNDERSTATEMENT

Not only are the forecast numbers striking, but the breadth of drivers that lies behind the forecasts is remarkable.

Technology, investment, new jobs, politics, security, health, education, reform, changing attitudes, to name a few, are all combining and interacting to shape and reshape the unfolding future. People’s lives and lifestyles in Asia are changing very rapidly.

One of the most basic elements driving change is population growth and the effect of geographic dispersion on population density and the type of community people live in. The obvious question raised is: given what is already happening, where will people live in 2025 and how will their villages, towns and cities affect the way they live?
There is no doubt that the type of environment people live in affects them greatly.

From isolated rural villages to high-rise megacities, Asia has them all. Where they live affects how people shop, where they shop, the products they require and the availability of those products. It affects what they do for work, how they communicate, their access to education, their attitudes and spending ability. Understanding the fundamental changes currently taking place across Asia is critical to gauging the future dynamics of consumer behaviour and, importantly, the impact population movements will have on the dispersion of economic prosperity.

In its 2014 Revision of World Urbanisation Prospects, the United Nations has forecast the population projections for six different urban tiers around the world:

- Less than 300,000,
- 300,000–500,000,
- 500,000 to 1 million,
- 1 million to 5 million,
- 5 million to 10 million, and
- more than 10 million.
When looking at the projections for ASEAN (the Association of Southeast Asian Nations) countries along with China and India, it is clear that large cities and megacities will play a crucial role in shaping the region's future landscape. The U.N. projects an additional 211.1 million people living in cities of over one million by 2025, for a total of 827.5 million, or 44.9% of all urban dwellers in the region. Megacities alone will attract an additional 79.8 million people.

Take China and India out of the equation, however, and the picture begins to look very different.
Within ASEAN’s 10 member countries, the combined additional population in cities of over one million in 2025 is 34.5 million, for a total of 121.7 million, representing a far more modest rise in the more densely populated centres from 29% to 32.9%. Conversely, in 2025 it is expected that 231.8 million people or 62.6% of the ASEAN urban population will live in cities and urban centres of under 500,000. These populations will be spread across a geographically and culturally diverse area in thousands of urban centres.

WHERE ARE THE GEOGRAPHIC HOTSPOTS IN ASEAN?

SOUTHEAST ASIA – POPULATION FORECASTS TO 2025
BY COUNTRY AND BIGGEST URBAN CENTRES

The stratification of consumers and market elements such as rising costs, competition and retail formats present significant challenges for companies operating in Asia, particularly when it comes to seeking economies of scale. Over the next decade the swelling middle class population, growing numbers of affluent consumers, and everything in between, will see the pool of disposable income becoming much larger and more dispersed. Consumers and their lifestyles will continue to stratify and fragment, driven by factors such as family structure, technology access, spending power, education, transport options and media exposure.

Subsequently, there is a growing need to evolve traditional consumer segmentation frameworks. Understanding where consumers live – whether rural, low-density urban, or mixed- or high-density urban – is the most powerful starting point to identifying emerging economic opportunities and the strategic approaches and segmentations that organisations must develop to approach new markets.
SEGMENTING CONSUMERS BY THE SCALE OF THEIR ENVIRONMENT

The types of consumers which live in these areas as well as the conditions and characteristics that influence their behaviour are in many cases quite unique.

Within ASEAN, there are five notable segments which define the region’s population environments:

- **RURAL AREAS AND SMALL TOWNS/VILLAGES**
- **LARGE TOWNS AND SMALL CITIES**
- **MID-DENSITY CITIES**
- **MIXED-DENSITY CITIES**
- **HIGH-DENSITY CITIES**

**URBAN POPULATION SIZE**

- <500K
- 500K–1M
- 1–5M
- 5–10M
- >10M
### TOTAL POPULATION

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<th>2025</th>
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<td>324.3M</td>
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### ASEAN URBAN POPULATION

- LARGE TOWNS AND SMALL CITIES: 62.6%
- HIGH-DENSITY: 18.7%
- MIXED-DENSITY: 14.2%
- MID-DENSITY: 4.5%
The U.N. estimates that the rural population in ASEAN in 2015 is 330.6 people, or 52% of the total population. This number is forecast to decline by 6.3 million to 324.3 million, or 47% of the total population by 2025, as people migrate to urban centres to pursue greater economic opportunities and a higher standard of living. While there is already evidence of this significant 5% shift in population taking place in ASEAN’s rapidly urbanising markets, the 47% of the population that will remain in rural areas accounts for almost half of the population across ASEAN and represents enormous opportunities. These consumers are changing quickly. They are increasingly well-educated, have higher levels of disposable income and are more aware of trends in the market than ever before.

There are considerable rewards on offer across ASEAN’s rural populations as many of these 330 million people gain in spending power. Many are at the very beginning of their relationships with packaged and branded goods. Even modest growth in spending power across so many equates to notable revenue, as the evidence of company growth in other rural markets around the world shows. Nowhere is this phenomenon more evident than in India. From 2009 to 2012, spending by India’s 800+ million rural residents reached $69 billion, some 25% more than their urban counterparts. Projected growth rates are simply astounding: according to recent Nielsen estimates, consumption in rural Indian areas is growing at 1.5 times the rate of urban areas, and today’s $12 billion consumer goods market in rural India is expected to hit $100 billion by 2025.¹

Over the coming years the needs of ASEAN’s rural consumers will continue to evolve as their rising disposable income provides the means to improve their lives and that of their families significantly.

Technology has the potential to be a big change agent for rural communities, however, this will depend to a large extent on the speed at which infrastructure is rolled out. The development of rural communities is also likely to be slowed by the government, health and retail infrastructure, which will struggle to keep pace with consumer expectations and emerging demands.

While the predominance of traditional trade will remain for some time, modern convenience format will continue its slow expansion. Small regional centres with improved transport and infrastructure will begin to connect rural outpost communities to the new modern world.

To seize rural opportunities, manufacturers and service providers must be ready to offer affordable pricing and pack size entry points to cater to consumers who will experience many brands and services for the first time.

Existing local manufacturers and providers have the advantage of local consumer knowledge, established distribution logistics and tailored pricing strategies, but will face rising competition from multinational companies in the years to come. Conversely, multinationals looking to expand their footprint in ASEAN must learn to adapt their offerings to suit local market nuances. Rural consumers typically have lower purchasing power, which necessitates lower price points. Loose packs and a tiered pricing strategy offer an affordable entry point to encourage trial, and this has been a traditional strong hold for local giants.

Shop owner recommendations and peer reviews are also important to rural consumers, and given the shop owner’s role in brand selection, product education and appropriate point of sale hardware is critical to brand success. Optimal product assortment strategies are also important due to limited store space.

CONSUMERS

- Low income but strive to keep pace
- Family and spirituality important
- Mobile savvy but limited access to computers and broadband

OPPORTUNITIES

- Increasing education will demand better health and education solutions
- Technology will bypass poor infrastructure
Large towns and small cities under 500,000 are pivotal in the ASEAN story of the future. It is estimated that centres with a population of less than 500,000 will grow from 196.2 million to 231.8 million, with absolute growth of 35.5 million. Although the proportion of the population in this segment will decline from 65% of urban population in 2015 to 63% in 2025, it will still account for just over half of net urban growth in that timeframe.

Small cities are playing an increasingly important role in the economy. In Thailand, for example, GDP growth is happening in areas outside of Bangkok and other major Thai cities, such as industrial estate cities and cities and towns along the borders of Thailand which are strategically positioned to take advantage of increasing cross-border trade and business activities from other ASEAN markets. Thailand’s gross provincial product (GPP) from 2008–2012 was 4.1% for Bangkok, 3.5% for other major cities, 3.3% for industrial estate cities and 3.7% for border cities. Such cities provide important new avenues of growth and will accelerate as investment flows into these areas.²

This trend is consistent across all ASEAN markets, with the increasing emergence of small industrial cities and cities that function as cross-border trading hubs, and highlights the economic opportunities facilitating population movements. A growing number of retailers are establishing premises in border towns and cities to use as distribution points when tariffs and trading regulations become less restrictive with impending ASEAN policies.

While for the majority of ASEAN countries GDP per capita is significantly higher in primary cities compared to smaller cities, Vietnam is an exception. Regional and international businesses operating in Vietnam are afforded a number of concessions and incentives to attract investment in industrial parks and economic zones centred in smaller urban centres. The initiatives are seen as a major factor in Vietnam’s economic development strategy and Vietnam’s industrial parks and economic zones have attracted over USD110 billion in foreign direct investment.³ Vietnam appears set

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*Cities reflect 2025 population forecasts
to continue this trend, with plans to spread investment and urban development cited in various planning documents developed in conjunction with or for the Vietnam government. Such examples of success set the foundation for continued investment and clear structures that small cities in other countries can follow. It is reasonable to expect many more programs will direct investment into smaller urban areas across ASEAN.

Regardless of the willingness to disperse investment and spread economic growth to a wider number of urban centres in a country, barriers such as lack of infrastructure, access to technology, education, health, transport and banking will hinder the development of the smallest urban centres. Looking abroad to countries like China, consumer demand met by private institutions can overcome these barriers by offering innovative solutions in areas such as private education and e-commerce. Technology will play a large role in bridging these gaps and stimulating activity where there is an absence of physical solutions. The penetration of e-commerce in smaller urban centres in China has created consumer demand that did not previously exist and, in many cases, filled the gap created by a lack of brick-and-mortar retailers in rural areas and lower-tier cities. There are high penetration rates for e-commerce in rural and low-tiered cities, and over 170 express delivery companies covering all provinces and rural areas. In the “shopping” category which can have gaps in supply in rural areas and lower-tier cities and towns, Nielsen has seen a 52% penetration rate in tier 4 cities and 26% in rural.

With economic activity expected to increase and, with it, the purchasing power of the small city consumer, the infrastructure shortfalls may be filled through innovation, or by companies simply developing a better understanding of consumers’ needs. Smaller towns and cities lack the infrastructure, retailer offerings, entertainment, health and medical options of larger cities, yet, consumer expectations are increasing. Thanks to rising travel and the Internet, consumers have greater exposure to future possibilities, which creates demand.
Understanding consumers’ emerging expectations in these smaller environments will be critical for manufacturers seeking insight and inspiration for new products and services that connect deeply with these consumers and their lifestyles.

It cannot be assumed that the emerging middle class will use products and services in the same way as consumers from larger urban areas. Product education on new categories is pivotal to encouraging trial and acceptance. Smaller towns offer a link between rural and emerging urban societies and provide consumers with a glimpse of an urbanised existence. As a result, locally-owned modern trade is set to flourish, especially around major transport arterials, and product offerings which provide convenience and value, and a means to transform consumers’ traditionally labour-intensive lives will be highly sought after. Price and value are also important factors, driving a need for promotional strategy tailored to different city tiers, such as multi-packs for lower-tier consumers with large storage spaces at homes, or price discounts and value added promotions in higher-density cities where space is limited.

**CONSUMERS**
- Migration from rural
- Aspirational consumers seeking job opportunities
- Purchasing power for first time

**OPPORTUNITIES**
- Demand will outstrip supply as consumers urban aspirations emerge
- E-commerce and non brick-and-mortar solutions will emerge
The combined 17.7 million population in mid-density cities in 2015 is forecast to decline slightly to 16.8 million in 2025, for a net loss of 0.9 million people. The shift from 6% of total urban proportion to 5% in 2025 highlights the comparatively small number of mid-density cities across Southeast Asia. However, mid-density cities will continue to draw investment from governments and businesses seeking to leverage lower labour and resource costs which, in turn, will drive migration as people look for opportunities.

Such business-led growth will have a ripple effect in the coming years. In the Philippines, for example, investment flowing into the cities of 500,000–1,000,000 such as Bacolod, Cagayan de Oro City, and Iloilo City, and into some of the smaller provincial cities will drive spending power over the coming decade. Initially being driven by business process outsourcing, it will have a flow-on effect to other industries and businesses, increasing the GDP of these smaller cities. With infrastructure investment in Asia forecast to represent nearly 60% of global infrastructure spending by 2025, the knock-on effects are undeniable. Approval for record amounts of infrastructure investment in ASEAN is creating new jobs, improving business and economic efficiencies, and generating new areas of activity. Structural changes in the ASEAN agenda continue to attract businesses to areas outside primary and bigger cities to lower-cost areas, which in turn is expanding GDP and economic prospects.

4 “A summary of South East Asian infrastructure spending: Outlook to 2025”, PriceWaterhouseCoopers

*Cities reflect 2025 population forecasts
This business and infrastructure investment will transform the consumer environment as jobs and commerce are created in mid-density cities. This will be one of the key enablers of the emerging middle class, which Nielsen estimates will increase from 190 million consumers in 2012 to 400 million in 2020. New levels of financial means will continue to be a differentiator in consumer attitudes, lifestyles and behaviour.

The retail environment will also adapt in cities of this size, as foreign owned modern trade invests in large format stores that can support the infrastructure. Traditional trade will remain the key retail format but will merge into a style of modern trade convenience, as seen in China with the significant growth of convenience stores in Tier 3 and 4 cities. Increasingly savvy and discerning consumers expect an improved in-store experience with a larger assortment of products which enable them to trial new brands and categories. Entry point premium options are taking on a growing importance given consumers’ increased purchasing power. As shoppers spend more time in larger store formats, point-of-sale display and promotion will be increasingly important to attract attention. Urban entertainment and high end dining are slowly emerging, and manufacturers and service providers can capitalise on demand exceeding supply in areas such as take away convenience food, snacking categories, and meal solutions.
MIxED-DENSITY CITIES
(MID- AND HIGH-DENSITY) – POPULATION OF 1–5 MILLION

Estimated to grow in population from 34.9 million in 2015 to 52.7 million in 2025 (12% to 14% share of urban population) the 17.7 million addition people in mixed-density cities will not come purely from organic population growth but from cities moving in and out of this bracket. This group of cities is likely to feature commonalities such as dual density, developing infrastructure, cheaper costs of doing business, increasing investments and growing affluence. Indonesia continues to experience the greatest change in this segment. The U.N. forecasts no less than 15 cities in 2025, compared to just 10 in 2015. This growth is likely to be distributed across the country’s key islands in different regions. Many of the cities which fall into the one to five million segment, and to some extent those in the 500,000 to one million bracket, are the provincial capitals and are acting as centres of commerce and industry for the towns and rural areas surrounding them. The big retailers are using these cities as distribution centres to get their products into less-populated areas as they have not yet gone into the smaller urban centres of less than 500,000. This will be the next wave of investment.

This spread of investment across smaller-sized cities will continue as new opportunities in consumption and cheaper costs of doing business are leveraged. Centres with a population greater than one million generally have better existing infrastructure and business systems available. These centres have the potential to expand and develop very rapidly, especially in areas where industries or even single entities start to flourish.

SPOTLIGHT ON:
BANDAR LAMPUNG
BANDUNG
BATAM
BIEN HOA
BOGOR
CAN THO
CEBU CITY
DA NANG
DAVAO CITY
DENPASAR
HAI PHONG
MAKASSAR
MALANG
MANDALAY
MEDAN
NAY PYI TAW
PADANG
PALEMBANG
PEKAN BARU
PHNOM PENH
SAMARINDA
SAMUT PRAKAN
SEMARANG
SURABAYA
TASIKMALAYA
VIENNTIANE
ZAMBOANGA CITY

*Cities reflect 2025 population forecasts

DRIVERS OF CHANGE

- Investment and infrastructure flowing in as government and businesses look for alternatives to high-density cities
Growth in population in mixed-density cities will likely be driven by employment migration as companies invest or move operations to leverage lower costs outside of high-density cities. This employment will bring increased prosperity to consumers as they aspire to a better life. Demographics will change as more families move to these areas for improved standards of living and increased space. Consumers moving from high-density to mixed-density cities will influence the broader purchasing expectations, and it will be important for retailers and manufacturers to provide comparable products and services.

Large scale shopping malls, hypermarkets, specialty shop complexes and luxury stores will expand their footprint beyond the biggest cities as demand for premium and luxury products and services emerge in mixed-density cities. Higher accessibility to space will enable larger store footprints and show rooms, in turn creating a destination, bringing high-density and smaller city consumers to a central location where global and Asian brands will be expected alongside local players. From a retailer’s perceptive, this environment offers abundant opportunity thanks to affordable space and strong consumer purchasing power.
These incredibly dense and in most cases sprawling cities are estimated to be home to 52.2 million people in 2015, rising to 69 million in 2025. With an additional 16.7 million people, this signifies a change of proportion of the population from 17% to 19% of the total urban population in ASEAN.

Urban sprawl is a common theme and satellite centres that have not already been absorbed are at threat of merging with expanding megacities. In ASEAN cities of over five million people, these cities are not only growing outwards but increasingly upwards. The high-density of these centres is changing the habitats of many people, and living spaces are rapidly shrinking. According to the Singapore Urban Redevelopment Authority: “The number of shoebox units – apartments of 500 square feet or less – in Singapore will grow from 2,400 at the end of 2011 to 11,000 by 2015.” Similar data points exist across the majority of major cities in ASEAN.

This accelerating growth of small units and other high-rise apartments in high-density areas is a phenomenon seen in all cities in this bracket. Although apartment living is common in other city sizes, the impact on people’s lifestyles and the way they behave as consumers is particularly prevalent in high-density cities. Limited space in smaller units means some do not have a traditional kitchen or food preparation facilities, as they are typically equipped with small open-concept kitchens. This is not only changing the way consumers approach FMCG – moving away from cooking at home to heating food - but is also influencing pack-size choices and storage options. Shrinking homes are transforming the way people socialize, their transport choices, furniture and technology. They are increasingly living fast-paced, on-the-go lifestyles, and want homes which are accessible to work, transport hubs, restaurants and other amenities. Space challenges impacts family size, driving a demographic skew toward young and aged singles and couples in cities of this size.

With national and regional big businesses operating in these high-density cities, professional service and white collar demographics will increase in concentration.
In turn, a great deal of premium and luxury spending will occur in these cities. Knight Frank points out that the rapidly expanding pool of ultra-high net worth individuals (UHNWIs) primarily live in high-density cities, and represents significant spending power. The disproportionate concentration of affluent consumers in high-density, very large cities attracts high-end restaurants, hotels and retailers who recognise the opportunities associated with being within close proximity to UHNWIs.

While affluent consumers represent significant opportunities and account for a large proportion of GDP in large cities, they are only part of the high-density story. There are millions of lower and middle income consumers working and living in these environments. For these time-strapped consumers, convenience is king. The full range of retail environments will prevail, from fresh market to mega mall. High-end luxury retail will proliferate with the highest concentration of convenience and foreign retail modern trade. Retailers must cater to consumer needs with extended shopping hours, click and collect and home delivery options. Fast and easy access to fresh food is an essential shopper prerequisite, and modern trade formats must deliver an offering which is comparable to the value of the traditional wet markets.

The digital revolution will play a pivotal role as consumers look for time-saving ways to minimise the routine and mundane jobs in their lives. While price is an important consideration, high-density city consumers seek quality and prestige, and are heavily influenced by product recommendations. They lead busy lives but value family time and seek products and services which free up their time. Constrained spaces and lengthy commute times influence consumers’ choice of pack size and their focus on convenient offerings. Health and environmental concerns are a priority for consumers in this highly urbanised environment, so sustainable products that focus on health and energy in consumers’ hectic lives are sought after. As high-density city consumers’ needs are diverse, it is important that manufacturers and service providers cater to the spectrum of consumers in these cities – from premium offerings to small, affordable single-use packs for daily use.
When considering the broad range of consumers, cities, rural environments and countries, it is clear that few organisations are honing in on consumers in secondary cities, small towns and rural areas. For the most part, the preference is to focus on primary cities which, comparatively, afford easier access, consistency and high value. While a relatively small number of organisations are beginning to cautiously invest in smaller markets where there is evidence of either infrastructure or economic growth unlocking consumption, this level of investment will accelerate rapidly in the years to come as the true value of secondary markets is recognised and understood.
Economic prosperity and consumer spending will no longer be confined to the region’s primary cities. Emerging urban centres will play a pivotal role in dispersing economic opportunities across a significantly broader base, including the small towns and rural areas of Southeast Asia which are largely considered to be the ‘sleeping giant’. Experience from other markets such as India and China should act as both a warning as to how quickly these consumers will evolve into a major economic opportunity, and a roadmap as to how gaps in supply and demand can be met in new ways. Specifically, new product innovation that is focused on the challenges, lifestyles and requirements of rural and small city consumers should be an area of exploration, as should the ability to bypass conventional distribution through e-commerce or new thinking in distribution centres and hubs.

Given the insights and data points included in this commentary, key recommendations include:

1. For companies looking to enter these markets for the first time, develop a strategy to identify and enter smaller secondary cities and rural areas within an appropriate time frame. Identifying regional capitals as an entry point can provide an “early mover” advantage.

2. Develop innovation that is completely driven by the unique needs, challenges and lifestyles of rural and small city consumers rather than adjusting offerings generated primarily for big city consumers.

3. Consider how e-commerce, distribution hubs and third parties might change the way you reach new consumers in new regions.

4. Generate differentiated innovation, marketing, sales and distribution strategies to create focused and successful consumer relationships.

5. Understand how existing efforts in primary cities may be adjusted in light of increasing time and space constraints, pollution, health and congestion issues that may be unique in high-density environments.

The challenge for retailers, manufacturers and service providers is to understand the latent needs and emerging demands of each population tier and those diverse consumer segments within each. Considering these consumers in context to their physical environment serves to highlight common challenges and needs where the personal traits of consumers themselves are fragmenting. It will also act as a sense check to differentiate strategies and drive consumer-centric thinking and decisions.
## ASEAN 2025: The Way Forward

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<th>Consumers</th>
<th>Opportunities</th>
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<td>High-density</td>
<td>Full spectrum: from high end luxury to shopping mall to wet market</td>
<td>Convenience, time and space saving offerings to fit on-the-go lifestyle</td>
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<td>Investment and infrastructure flowing in as government and businesses look for alternatives to high-density cities</td>
<td>Rich vs. poor</td>
<td>Strong migration from consumers seeking a better life: more space with growing opportunities</td>
<td>Migration of families with growing purchasing power to spend on household products and services</td>
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<td>Greater purchasing power will kickstart new industries unseen previously in small urban</td>
<td>Overburdened infrastructure</td>
<td>Large-scale malls and shopping strips</td>
<td>Consumer demand may outstrip government infrastructure</td>
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<td>Improved connections may invigorate businesses, job opportunities, and spending power while cost of living is low</td>
<td>Demand does not outpace infrastructure and development</td>
<td>Luxury and convenience stores emerge</td>
<td>Advent of private-owned solutions to meet needs</td>
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<td>Improved road infrastructure making hubs more accessible</td>
<td>Small infrastructure projects – small schools and medical</td>
<td>Dominance of traditional trade but emergence of modern trade around transport arterials</td>
<td>Demand will outstrip supply as consumers urban aspirations emerge</td>
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<td>Banks focus on rural consumers, with money “sent back” from urban families</td>
<td>Hubs to rural outposts</td>
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