



Authors :



Michael Andrew

Chairman, KPMG International
+852 2140 2890
mandrew@kpmg.com



Peng Yali

Head of Research
KPMG Global China Practice
+86 10 8508 5828
yali.peng@kpmg.com

Emerging markets contribute to the rise of the middle class

The wave of globalisation triggered by multinationals in the West after World War II transformed Asia in a way that was unparalleled. Quick to seize the opportunities offered by this wave of globalisation in the 1960s and 70s, Japan rose to become a developed economy after its successful industrialisation.

In the 1970s and 80s, the Four Asian Tigers followed Japan's lead in developing an export-oriented economy by leveraging opportunities in the global division of labour and, in so doing, became Newly Industrialised Economies (NIE). From the 1990s to the first decade of the 21st century, China's open-door reforms transformed the nation and Asia as a whole. The explosive growth of China's economic strength, together with the emergence of new markets such as India, Indonesia and Vietnam have served to allow Asia to assume a more dominant role in the world economy.

The three waves of globalisation pushed Asia towards the centre of the world economic stage. Unprecedented changes have made Asia very different from what it was 40, or even just 10 years ago. Asia should be proud of its rapid GDP growth, ever-increasing foreign exchange reserves, the competitiveness of its manufacturing industry, the record-high trade surpluses and its resilience in the financial crisis. However, these achievements are not the most significant changes. The most fundamental and revolutionary development in Asia has been the rise of the middle class.

The middle class arises as a result of economic prosperity and it is what makes a market-oriented economic regime thrive. Their proclivity toward reason and stability keeps social unrest and turmoil at bay. The middle class is also an important group of consumers. Their demand for quality goods and services contributes to economic sustainability and social evolution; an economy without a mass group of consumers as its foundation cannot be sustained in the long run. In other words, the middle class is the key to sustaining economic and social development in a region and country.

What exactly is the middle class and how do we define it? No consensus on a standard definition exists as it differs from societies and times, and it also varies with the purposes of discussion. For example, the Asia Development Bank (ADB) defines the middle class as those who spend USD 2–20 per person per day in a report published in 2010 (1.9 billion people or 56 percent of the population of developing Asian countries in 2008). The National Council of Applied Economic Research (NCAER) of India forecasts that there will be 53 million middle-class households with an annual household income of between USD 7,400 and USD 37,000 in India by 2015. According to McKinsey & Company, in terms of purchasing power, people with an annual income of between USD 13,500 and USD 53,900 in China can be categorised as middle class (100 million people). In a survey released by Boston Consulting Group in 2010, people categorised as middle class and wealthy consumers are those with a monthly income of over RMB 5,000 (equivalent to USD 790) and the number of people in this category will rise to more than 400 million by 2020.



Regardless of the criteria and definitions used, the middle class is expanding with the growing economic strength of the emerging markets. The emerging middle class has left behind their days of poverty. Without the need to worry about basic survival, they now look towards consuming beyond their basic needs. While they are not wealthy enough to spend as much as they would like, generally speaking, they are a strong force in driving consumption. From China, India and to the rest of Asia, people have shifted their focus from “subsistence” to “consumption”. The middle class has helped Asian emerging markets withstand the turmoil of the global financial crisis and, as a result, the economic outlook remains optimistic. Factors such as investment, monetary supply, capital market, labour costs, exports, domestic demands, creativity, brands and productivity are often mentioned in discussions about future economic development, but as the cornerstone of the economy, the middle class cannot be overlooked.

The rise of the middle class in Asian emerging markets has a particularly far-reaching effect given these countries’ large populations. According to ADB’s definition, the middle class made up only 21 percent of the population of developing Asian countries in 1990; it more than doubled to 56 percent by 2008. Based on the results of various surveys, China has a middle class population of approximately 250 million to 300 million, more than the sum of the middle-class population in the rest of Asia. India, second to China, has a middle-class population of 160 million, while Indonesia has 50 million. The latter figure is expected to reach 150 million

by 2014. Vietnam has a population of 86 million, of which 14.6 million fall into the category of middle class. This figure is expected to reach 21.5 million in a few years.

In the ADB survey, during the period from 1990 to 2008, the average expenditure of the middle class in China had increased by USD 1,825 million annually, followed by USD 256 million in India, USD 168 million in Indonesia and USD 77 million in Vietnam. By 2020, China's middle class will become the top consumers, while India and Indonesia will rank third and eighth respectively. By 2030, the middle-class population will account for more than half of the overall population in most of the developing Asian countries. By then, Asia's annual expenditure will amount to USD 32 trillion, or 43 percent of the global total.

Unique demands of middle-class consumers

The commercial landscape is changing fundamentally with the rise of the middle class in emerging markets. Globally, the consumption balance is shifting from the developed economies of the US and Europe towards emerging markets. In Asia, the balance is shifting from the industrialised regions of Japan, South Korea, Hong Kong, Singapore, Taiwan and the wealthy oil-producing countries in the Middle East towards the emerging markets of China, India, Indonesia and Vietnam. Within these emerging markets, the balance is shifting in favour of second- and third-tier cities as they have benefitted from large-scale urbanisation and have risen to rival their first-tier counterparts.

Middle-class consumers in Asian emerging markets have huge potential and increasing influence, and they also have fundamental differences from their developed market counterparts. Enterprises must recognise this and cater to the diverse preferences of this consumer group to acquire and retain market share.

Firstly, the emerging middle-class consumers differ in their preferences, demands and habits. Although basic survival is no longer a concern, people belonging to this class are not wealthy enough to spend as much as they would like to and they are extremely conscious and sensitive about their status where they are sandwiched between the wealthy and grassroots. Some of the older middle-class consumers remain thrifty even with a comfortable level of disposable income as memories of the hardship endured in the past remain fresh, while others may spend according to their whims and fancies to make up for the sufferings in their youth. On the other hand, the young are eager to emulate trends in developed markets such as the US, Europe, Japan, South Korea and Hong Kong. To the emerging middle class, the consumption of goods and services is more about enhancing one's self-identity and social status than it is about material satisfaction.

Secondly, the middle class in Asian emerging markets is made up of a younger population compared to their counterparts in the US and Europe. According to Hurun Research Institute, Chinese millionaires with a personal net worth of over RMB 100 million are aged 45 on average, while

those who have about RMB 10–99 million are aged 41 on average, implying an even younger middle class. In Vietnam, 56 percent of the population are aged below 30, and the average age of the Vietnamese is just 25. Young middle-class consumers are particular about product quality, trendiness and user experience, which are reflected by the values associated with a brand. They will only stick to trusted and widely recognised brands. Apart from the quality of a product/service, these consumers also take into account the buying experience such as the vendor's sales service and product/service knowledge, plus the after-sale services.

Thirdly, the emerging middle class is embracing online shopping. Thanks to years of development of B2C, C2C, group buying and ranking e-commerce websites, online shopping is gaining popularity through promotions on various social media platforms including Facebook, blogs and microblogs like Weibo. With the ever-improving logistics and payment systems, online shopping is making its way into mainstream consumer channels, and it is expected to grow even faster in future.

Fourthly, the middle class in Asian emerging markets are not concentrated in the big cities. In China, middle-class consumer groups in smaller cities are growing at a faster rate than their counterparts in first-tier cities such as Beijing, Shanghai and Guangzhou. In India, the middle class are scattered around the country and are not concentrated only in cities such as New Delhi, Mumbai and Bangalore. Their diversity in geographical locations, composition and needs is so apparent that there is no standard pattern in their preferences. For example, some prefer spending on their children's education, while others are concerned only with satisfying their own wants; some love travelling and taking part in cultural and recreational activities, while others spend on real estate and high-end electronics; some long to possess luxury goods, while others invest in an MBA degree or English language course. There are essentially many different middle classes in Asian emerging markets.



Realigning competitive strategies to satisfy demand from the middle class

Vast business opportunities lie in the huge demands of the middle class in Asian emerging markets. Enterprises should focus on this particular class of people as none can afford to lose these customers. An enterprise, whether or not a consumer product manufacturer, will soon find itself in trouble if the management does not have the middle class in mind. To grasp the great opportunities offered by this huge group of middle-class consumers, an enterprise must try to identify the unique characteristics of these consumers and understand how they are evolving, so as to realign its strategies and maintain competitiveness.

Two commercial forces are worth mentioning in our analysis of the middle class in Asian emerging markets, namely multinationals and local enterprises. Local enterprises actually have an advantage over multinationals in appealing to the grassroots, while multinationals are more successful in attracting the wealthy. As for the competition between local

enterprises and multinationals for middle-class consumers, multinationals seem to be a notch ahead but the verdict is still out on who the winner is.

The competitive advantage of multinationals lies in brands which are highly valued by the middle class. In a KPMG China study published in 2011 entitled "Luxury experience in China" which examined China's luxury goods market, Chinese brands are weakly associated with luxury goods in most product categories. Of 1,200 respondents, less than 10 percent associated domestic brands with luxury clothes, bags, shoes and accessories, while more than 60 percent chose French and Italian brands when posed the same question.



In view of the above, domestic enterprises will stand to lose middle-class consumers to their multinational competitors if they do not work harder to meet the demands of the middle class for a high standard of living and increased brand value by establishing reputable brands. On the other hand, multinationals have to broaden their customer base beyond big cities and realign their strategies in customer segmentation, product design and marketing to cater for diversified needs and adapt to local markets. While local enterprises should try to attract more wealthy consumers, multinationals need to tailor their products and services to suit local preferences. Both parties can thrive in this competitive environment as they strive to expand their markets. Through competition, middle-class consumers are offered more choices and better quality. With them more willing to loosen their purse strings, the size of the consumer pie is enlarged for both local enterprises and multinationals.

If people are remaining optimistic about Asian emerging markets in view of the slower economic recovery in the rest of the world, it is not as much because of efficient governments, intelligent bankers or shrewd entrepreneurs, as it is because of the emerging middle class.

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