

Riding the floodtide of Asian consumer spending

Asia's rising levels of discretionary spending and growing consumer culture across the region has long been a favorite investment thesis for local private equity funds. Recently, the trend has if anything accelerated, with China and India emerging as newly empowered consumer markets, and Thailand and Indonesia in particular pushing Southeast Asia further down the path towards Western-style consumerism. With a sheaf of new research reports on this topic just released by [CLSA](#), [AVCJ](#) took the opportunity to canvass opinion on the consequences for private equity of – in CLSA's words – “a new order for Asian consumption.”

Consumer confidence and discretionary spending

The new boom in Asian consumer spending has diverse causes, but one key one is much-enhanced consumer confidence. “For the first time Asia's starting to see a generation that has the same kind of confidence as North America had with its baby boomers,” [Chris Lobello](#), author of the report “Boomers And Markets” and Malaysia Country Head at CLSA, tells [AVCJ](#).

“It's primarily an issue of willingness to spend,” he continues. “If you look at Asia going back 20-30 years, most

places were facing fairly difficult times. The difference coming from North America, you feel, is that it was assumed that the future would be better. Asia until recently has not had that assumption. It was more of a question mark.”

Private equity professionals targeting the consumer opportunity tend to agree. “Historically, Asian households have been savers rather than spenders,” notes [Nicholas Bloy](#), Founding Partner and Director at [Navis Capital Partners](#). “However, we believe that the rise of the Asian consumer is an unstoppable phenomenon that, barring geopolitical-type shocks, will create opportunities for the next 20 years.”

The level of confidence and security can itself be a consequence as well as a cause of private equity investment in one critical area of discretionary spending: healthcare. [Sunil Chandiramani](#), Partner at [Symphony Capital Partners](#), stresses that spending on health is a major way of capturing, and reinforcing, the spending boom generated by greater consumer confidence.

Janice Tan's report for CLSA “It's All About Me! Asia's Boomer Generation” breaks down its survey of 2,100 singles

aged 20-34 across Asia into levels of prudence or caution. Chinese boomers in the survey are relatively conservative, reserving 24% of their average income for personal savings. Taiwanese and Thais follow at 21% and 20%, while Indians save just 13% and Indonesians only 10% – although Indonesians also spend the most on education (15%).

“By 2007, young singles in the 11 key Asia-Pacific economies will account for 12% of the global populace but will command almost half the estimated \$300 billion of purchasing power in Asia,” Tan points out. “The sheer size of this generation means it can affect the development of consumer culture across the whole region.”

“The major consumer growth markets of India and China are in a secular growth phase,” says [Jean Eric Salata](#), Chairman of Baring Private Equity Partners Asia. “We expect the growth to be sustained for the foreseeable future as more people join the workforce and reach the level at which they have disposable income.”

However, consumer confidence, no matter how pervasive, has one drawback: it is volatile and vulnerable to short-term shocks. “The first sign of a slowdown is that consumer spending is down,” notes Chandiramani. “There's a lag sometimes, but definitely the consumer sectors will be impacted if a macro shock will take place, as we saw during the Asian financial crisis.” Yet he also believes that “the large domestic economies of these countries are large enough to with stand minor macro shocks.”



Janice Tan



Chris Lobello



Nicholas Bloy

“We had the Asian crisis, which is pretty much as bad as it can get, and look where we are today,” adds [Rick Phillips](#), Partner at [Actis](#). “In places like Indonesia, consumer-facing businesses have a real opportunity.” Bloy is equally bullish on the resilience of Asian consumers. “The UK, the US, and Australia show how low savings rates can go before consumers pull back,” he points out.



Sunil Chandiramani

family income, they start to spend more on the products that we take for granted.”

“A growth capital strategy is well suited for investing in markets like China and India,” Salata remarks. “There, the majority of consumer-oriented businesses are still owned by founders who need capital in order to achieve their strategic objectives, but who are not yet willing to sell their entire business or retire.”

Consumer plays also have advantages that offset any worries about short-term volatility. “The thing that we love most about consumer businesses is that most are freely competitive,” Bloy adds. “It’s not up to the Government to confer its patronage through contracts or a slant on regulation, or based on comparative advantage that may shift, e.g. a currency movement that erodes a low-cost producer’s export competitiveness to distant markets. Rather, it’s the archetypal housewife picking her favorite brand because of the price point, the product quality, the packaging, its availability in retail outlets where she shops, etc. These are all levers that are addressable by a controlling shareholder and the management team, with the main exogenous factor being whether you can outthink and out-execute your competitors.”

Risk in consumer investment

Faced with such overwhelmingly positive analyses of the region’s burgeoning consumerism, what are the other “exogenous factors” that could upset the picture and spoil the investment thesis for private equity firms? Bloy brings up one: competition from strategics. “The only thing I would add is the important caveat that there are MNCs with a lower cost

of capital than private equity funds, a strategic agenda, and 20-year investment horizons who are also looking at Asian consumer segments. Segment profitability can get steam-rolled for well beyond the life of a private equity transaction. At Drypers [Navis’s baby diaper company], we were always looking over our shoulder at Procter & Gamble (Pampers), wondering if or when they would drop the hammer on us.”



Rick Phillips

As for the risk of a slowdown in Western markets, Chandiramani is less concerned about it putting a long-term drag on Asian consumer confidence. “A general global slowdown would obviously impact to the extent that general manufacturing and outsourcing is driving China and India,” he notes. “There’ll be some impact, but not as bad as it used to be in the past, because the domestic economies are quite large and flourishing.”



Jean Eric Salata

However, he points beyond terrorism and other geopolitical risks to one major imponderable: oil. “Oil is the major worry; no one knows what the real impact of rising oil prices is going to be. I would put that at the top of the list, because places like China and India rely on imported oil. In both areas there is an element of subsidy. The governments can afford to subsidize fuel because things are going well, but in a downturn that may change.”

Chandiramani also notes that capital flows may have an impact, as they did in 1997. “There’s a lot of liquidity flowing into Asia right now, into the stock markets, property, all kinds of stuff. If that dries up that will have a lot of knock-on effects. If a macro shock comes along, it’s going to be interesting.” -PSM

Investment focuses and approaches

The rising yield from consumer-exposed investments dictates certain strategies. “Navis has consciously trimmed its portfolio towards the Asian consumer,” remarks Bloy. “We have made six acquisitions in the following areas in the last two years: outdoor media/billboards in Malaysia, fast food in Hong Kong, airline catering in India, auto rentals in Asia Pacific, casual dining/hotels in India, coffee and casual dining in Australia, Malaysia, Indonesia, and the Middle East.”

One of the sectors Chandiramani is positive on is tourism. “Witness the number of visitors that Hong Kong is getting from China. They’re coming to Hong Kong and spending tons of money. India’s very much the same. A lot of people are saying tourism out of India is going to increase substantially because there’s so much disposable income: the feel-good factor is so high.” And he points out just how much dormant potential there could be in this sector. “For example, India’s tourist population today is just three million. Hong Kong by itself has 23 million tourists. Tourism in India is clearly a huge opportunity. With the advent of low-cost airlines in the region, the sector should flourish.”

“It’s just a fundamental fact of economies as they shift up a gear,” says Phillips. “As people start to get an increasing