Vietnam and Myanmar
Southeast Asia’s New Growth Frontiers
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Southeast Asia’s New Growth Frontiers

Aparna Bharadwaj, Douglas Jackson, Vaishali Rastogi, and Tuomas Rinne

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With a combined population of 150 million and economic expansion exceeding 6 percent annually, Vietnam and Myanmar are Southeast Asia’s growth frontiers.

**Strengthening Fundamentals**
Both Vietnam and Myanmar are benefiting from an influx of foreign capital. Myanmar is adopting modern political and economic policies after decades of isolation.

**Consumer Power**
The middle and affluent class in Vietnam and Myanmar is expected to double in size by 2020. These consumers are among the most optimistic in the world.

**Vietnam: Spreading the Wealth**
As consumption rises, it will also spread out far beyond Hanoi and Ho Chi Minh City, where it is now concentrated.

**Myanmar: A Focused Opportunity**
While the consumer opportunities are smaller in Myanmar, they are—and will continue to be—concentrated in three urban areas: Yangon, Mandalay, and Ayeyawady.
With a population twice that of the United States and GDP growth greater than 5 percent, Southeast Asia is a large and dynamic region. By 2015, the ASEAN Economic Community (AEC) free-trade pact will be in effect, further energizing the region. The increasing flow of resources, goods, and capital will be especially beneficial to countries along the Indochinese peninsula. These countries are connected by geography but, until recently, were separated by historical circumstances.

In particular, the economic spotlight is now on Vietnam and Myanmar. With a combined population of 150 million and economic expansion exceeding 6 percent annually, these nations are Southeast Asia’s new growth frontiers. Indeed, Vietnam has the fastest-growing middle and affluent class (MAC) in the region. Between 2012 and 2020, this population of consumers will rise from 12 million to 33 million.

Vietnam has been attracting foreign investment for several years. Samsung, for example, has won a license to invest $1.2 billion in production facilities in the country, while Nestlé recently opened a $240 million coffee-processing factory to serve Southeast Asia.

Interest in Myanmar is more recent. Unilever and Coca-Cola have both recently opened local manufacturing facilities and are committed to making further investments. A joint venture between the Myanmar and Thai governments is developing a deep-water port in Dawei, on Myanmar’s Tenasserim coast. A new road through mountains and jungles will eventually connect a surrounding industrial zone of more than 200 square kilometers with Bangkok, 350 kilometers away. The development will help knit Indochina together and provide easy water access to India at an eventual cost of up to $50 billion.

Both Vietnam and Myanmar have valuable natural resources—offshore oil in Vietnam and minerals, metals, gems, and timber in Myanmar.

One of the little-known facts about these two nations is that their consumers are among the most optimistic in the world. The Boston Consulting Group’s consumer research shows that more than 90 percent of consumers in both countries expect to live better than their parents and expect their children to live better than themselves. (See Exhibit 1.) This level of optimism is among the highest recorded across 25 countries surveyed in the past year and is significantly higher than in China, India, and Indonesia.
Consumers in Vietnam and Myanmar are rapidly acquiring purchasing power that will make them attractive to companies. Indeed, the MAC segment is growing faster in both Vietnam and Myanmar than in any other Southeast Asian nation and is expected to double in size by 2020. (See Exhibit 2.)

### Exhibit 1 | Consumers in Vietnam and Myanmar Are Among the Most Optimistic in the World

<table>
<thead>
<tr>
<th></th>
<th>Vietnam</th>
<th>Myanmar</th>
<th>China</th>
<th>Indonesia</th>
<th>India</th>
<th>Thailand</th>
<th>Brazil</th>
<th>European Union</th>
<th>Russia</th>
<th>U.S.</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our generation will live a better life than that of our parents</td>
<td>96</td>
<td>95</td>
<td>92</td>
<td>78</td>
<td>69</td>
<td>66</td>
<td>71</td>
<td>69</td>
<td>58</td>
<td>60</td>
<td>41</td>
</tr>
<tr>
<td>Our children will have a better life than ours</td>
<td>95</td>
<td>92</td>
<td>78</td>
<td>69</td>
<td>66</td>
<td>71</td>
<td>69</td>
<td>58</td>
<td>60</td>
<td>41</td>
<td>45</td>
</tr>
</tbody>
</table>

**Sources:** BCG Global Consumer Sentiment Survey 2012 and 2013; BCG Indonesia consumer survey 2012; BCG Indochina consumer survey 2013; BCG analysis.

**Note:** Analyses are based on urban consumers only.

### Exhibit 2 | Vietnam and Myanmar Have Fast-Growing MAC Populations

#### Vietnam

- **2012**
  - Affluent: 12.9 million
  - Established: 8.4 million
  - Emerging: 15.4 million
  - Aspirant: 10.5 million
  - Poor: 8.2 million

- **2020**
  - Affluent: 12.9 million
  - Established: 8.4 million
  - Emerging: 15.4 million
  - Aspirant: 10.5 million
  - Poor: 8.2 million

**MAC annual growth, 2012–2020 (%)**

- Vietnam: 12.9%
- Myanmar: 8.4%
- Indonesia: 8.4%
- Thailand: 4.2%

*Total MAC consumers*

**Sources:** BCG CCCI models; BCG analysis.

**Note:** In Vietnam and Myanmar, the MAC population comprises the affluent and established segments. In Indonesia and Thailand, the MAC population also includes the emerging segment; this is owing to differences in the point at which consumer spending takes off in these markets. The MAC cutoff is monthly per capita income of $190 in Vietnam, $120 in Myanmar, and $150 in Thailand. For Indonesia, the MAC cutoff, which is expressed in spending rather than income, is $40 per month.
BCG’s Center for Consumer and Customer Insight (CCCI) recently surveyed more than 3,000 urban consumers in Vietnam and Myanmar. The analysis provides a granular forecast of consumption, by product category, in both countries. (See the sidebar “Consumer Power.”)

CONSUMER POWER

In order to project the growth of consumers and their spending in Vietnam and Myanmar, the CCCI analyzed population and income trends in nearly 1,400 districts in Vietnam and nearly 75 provinces in Myanmar. The center also surveyed 2,000 urban consumers in Vietnam and 1,000 urban consumers in Myanmar about their purchases in 20 categories of consumer goods in order to understand channel preferences, attitudes, and behaviors. The CCCI generated consumption curves that showed the income levels at which purchasing takes off for individual products. (See the exhibit below.)

By combining consumer research with income forecasts, the CCCI study provides a perspective into where companies should target their efforts based on their product portfolio and how quickly those markets will develop. This analysis affords a more nuanced view of consumers and consumption than traditional consumer research. For example, many models set an arbitrary floor for the consuming segment that is adjusted by country based on cost of living or purchasing-power parity. The CCCI methodology, in contrast, sets the income floor on the basis of when actual spending starts to take off for a wide array of goods and services.

### Heading Toward a Tipping Point in Consumption

- **Myanmar**
  - Average spending ($120)
  - Per capita monthly income 2012 average: $64

- **Vietnam**
  - Average spending ($190)
  - Per capita monthly income 2012 average: $110

- **Thailand**
  - Average spending ($150)
  - Per capita monthly income 2012 average: $290

**Sources:** BCG Indochina consumer survey 2013; BCG analysis.

**Note:** Exchange rates used are as follows: $1 = 855 Myanmar Kyats, 20,862 Vietnamese dongs, and 31 Thai bats. Spending represents annual amounts, except for mobile phone spending, which is a quarterly average.
Companies that enter Vietnam and Myanmar now have an opportunity to build businesses, brands, and momentum early in the development of these formerly closed economies—but only if they have a solid understanding of these markets’ consumers and how to satisfy them. (See the sidebar “Tidbits About Vietnam and Myanmar.”)

**Vietnam: A Strong Trajectory**

Vietnam has been on the upswing for 20 years, and that trajectory has steepened since 2007, when the country joined the World Trade Organization. The Vietnamese economy is well balanced, with exports and investments driving recent growth. Thanks to the growth of the technology components and equipment industries, exports and investments have been growing faster in Vietnam than in other Southeast Asian nations.

Vietnam is a stable communist country, with leaders committed to economic expansion. Inflation and corruption remain persistent challenges to which companies must adapt. While a recent banking crisis has shaken investor and consumer confidence and contracted credit, the nation’s leaders are taking steps to fix the root causes. (See the sidebar “Vietnam at a Crossroads.”)

By 2020, Vietnam’s MAC population will be two-thirds the size of Thailand’s MAC population. Average per capita income will rise from about $1,400 to $3,400 per year. It’s no wonder McDonald’s announced recently that it would join KFC, Starbucks, Pizza Hut, and Burger King in opening stores in Vietnam.

This new wealth is well distributed. Incomes in rural areas are actually growing faster than in urban areas—expanding by 18.5 percent annually between 2002 and 2010, compared with 16.6 percent in urban areas. The government has encouraged this income growth through land allocation, trade, and investment policies.

**TIDBITS ABOUT VIETNAM AND MYANMAR**

Vietnam and Myanmar are not well known globally. A few facts help shed light on these countries and their people.

- Consumers in Myanmar and Vietnam are the most optimistic in Asia, with 93 percent and 95 percent, respectively, saying that their children will have a better life than they do.
- Consumers in Vietnam are among the most family oriented in Asia, with 69 percent saying they never spend money on themselves before the family’s needs are met.
- Vietnam has higher Internet penetration (43 percent) than Thailand (41 percent) or Indonesia (29 percent).
- Myanmar was the world’s leading exporter of rice before the collapse of the economy following a military coup in 1962.
**VIETNAM AT A CROSSROADS**

Vietnam’s recent economic performance is colored by a banking crisis that has lingered for more than a year. The broad outlines are well known. Banks liberally loaned money to state-owned enterprises and other companies, and many of those loans have gone bad. When the government tightened credit, bankruptcies soared and GDP growth slowed. GDP growth of 5 percent in 2012 was the lowest in more than a decade.

In July, the government created an agency to buy bad debt from banks. The move was both applauded as necessary and criticized as too little, too late.

Southeast Asian nations have survived banking crises before. After the Asian financial crisis in the late 1990s, several governments consolidated and recapitalized their banking industry, setting the stage for future growth. The economies of Malaysia, Thailand, and Indonesia were back to precrisis levels within five years. Vietnam’s banking industry is healthier than that of its neighbors during the crisis of the late ’90s. If the government learns from history, the current crisis should prove to be a speed bump rather than a major hurdle.

**Understanding Vietnamese Consumers.** Despite short-term worries about the global economy, 70 percent of Vietnamese consumers say that the economy is on the upswing. These consumers are also financially secure. They are in the mood to buy, with 80 percent of them saying they want to make more purchases than they did the year before. They are more open than their counterparts in Thailand and Myanmar to buying on credit, with 43 percent saying they would consider borrowing to buy essential items and 28 percent willing to borrow even for luxury items.

Few Vietnamese consumers, however—including the affluent—use banking products other than a savings account. Only 5 percent own a credit card, for example. These consumers do not fully understand the benefit and relevance of many banking products.

Vietnamese consumers are even more family oriented than those in other Asian markets. Nearly seven out of ten consumers, or 69 percent, say they do not spend money on themselves until their family’s needs are met—a higher percentage than in India, Indonesia, Thailand, or China.

Rich, poor, or in between, Vietnamese enjoy the hunt for deals, discounts, and promotions, more so than consumers in Thailand or Myanmar. They are also more active users of the Internet than their peers in nearby markets—43 percent, compared with 41 percent in Thailand and 29 percent in Indonesia. However, Vietnamese consumers do not tend to shop online. Only 16 percent of MAC consumers are online shoppers, compared with 39 percent of MAC consumers in Indonesia.
**Reaching Consumers in Vietnam by Going Far and Wide.** MAC consumers in Vietnam are not just growing in numbers; they are also spreading out. Today, a company can reach one-half of Vietnamese MAC consumers by serving Ho Chi Minh and Hanoi provinces.

But between now and 2020, several sizable groupings of MAC consumers will crop up along the 1,200-kilometer-long spine that connects these provinces, the country’s largest. As a result, Ho Chi Minh and Hanoi provinces will account for only about one-third of MAC consumers by 2020, and a company will need to have a presence in nearly twice as many locations as it does today to achieve comparable coverage. (See Exhibit 3.)

**Understanding the Changing Shopper.** While consumers still depend on mom-and-pop shops for smaller purchases, modern trade has a growing presence in Vietnam. About 80 percent of MAC consumers shop for groceries in hypermarkets or supermarkets at least occasionally. But traditional and modern-trade formats will continue to compete for customers for many years. These dueling channels will force companies to develop new skills, such as key-account management in modern formats, while paying attention to in-store execution and consumer insight in both formats.

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**EXHIBIT 3 | MAC Consumers in Vietnam Are Spreading Out**

<table>
<thead>
<tr>
<th>Year</th>
<th>Location Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>39 locations needed to cover one-half of the MAC population</td>
</tr>
<tr>
<td>2020</td>
<td>73 locations needed to cover one-half of the MAC population</td>
</tr>
</tbody>
</table>

- **Hanoi**
- **Ho Chi Minh City**

| More than 1 million MAC consumers |
| 500,000 to 1 million MAC consumers |
| 250,000 to 500,000 MAC consumers |
| Fewer than 250,000 MAC consumers |

**Sources:** BCG Population and Household Expenditure Database 2012; BCG analysis.

**Note:** Location classification includes districts, district-level towns, provincial cities, and quarters.
Many basic consumer goods are already widely available and used in Vietnam. Toothpaste, packaged goods, and biscuits have at least 80 percent penetration among urban consumers. Cosmetic products also are in a majority of households at all income levels. Therefore, companies will likely have to encourage increased consumption, as well as trading up to higher-quality products and adoption of “comfort” and “lifestyle” products, within these categories. For example, motorcycles and refrigerators all have penetration rates greater than 80 percent across all income segments. But comfort products, such as air conditioners, and lifestyle products, such as smartphones, have far lower penetration rates among consumers below the MAC threshold.

Getting Vietnam Right. The window of opportunity in Vietnam is open now. Consider the following realities and questions if you are already in Vietnam or are thinking of getting in:

- **Increasing penetration will be insufficient in most categories.** What is the real opportunity for your business? Do you have a plan to drive category growth through increased consumption, trading up, and adoption of higher-end comfort and lifestyle products?

- **Traditional channels remain relevant in several categories, but MAC consumers are shopping increasingly at modern-trade stores.** Do you have the right portfolio, prices, package sizes, and go-to-market and service model to win in each channel?

- **MAC consumers are rapidly spreading beyond the largest cities.** Do you have the right go-to-market strategy to rapidly increase your coverage throughout the country?

- **As your business grows, the need for top talent and strong organizational practices will increase.** Do you have mechanisms in place to attract and retain top talent and build your local Vietnamese organization?

- **Financial service companies need to drive adoption of products.** Do you have a plan and a marketing campaign to compete against local and state-owned banks that, despite recent troubles, are still more trusted by the Vietnamese than foreign banks?

Myanmar: A Rising Tide

Myanmar’s emergence from economic isolation provides a rare opening for companies to reach a small but rapidly growing and fertile consumer market. With foreign investment flowing into the country and political freedoms and civil liberties being restored, consumers sense that tomorrow will be better than today. As U.S. President Obama said on a 2012 trip to Myanmar, “Change can happen very fast if a spotlight is shone on a country, and the people there start believing that their voices can be heard.”

Myanmar is a work in progress. Ethnic violence is a real but relatively rare occurrence. In recognition of the reforms under way, the European Union has lifted trade
restrictions, and the United States may grant Myanmar preferential access to the U.S. market.

Myanmar’s MAC population will nearly double from 5.3 million in 2012 to 10.3 million in 2020, growing from 9 percent of the population to about 15 percent. Companies have an opportunity to reach, satisfy, and win over these consumers at the first stage of their purchasing power. Caution, however, is in order. To put these numbers in perspective, the greater Bangkok area currently has 6 million MAC consumers, and an affluent consumer in Myanmar today has the same purchasing power as a new member of the middle-class in Thailand.

Understanding Consumers in Myanmar. Although consumers in Myanmar are wildly optimistic about the future, they are not yet big spenders. Just 27 percent of them have increased their discretionary spending over the past year, compared with 33 percent of Vietnamese consumers. This reluctance may reflect economic uncertainty. More than 80 percent of urban consumers in Myanmar say that they are financially insecure. In Vietnam, fewer than 30 percent feel that way.

About two-thirds of Myanmar’s population—but only one-third of the MAC population—live in rural areas, where shopping options are more limited and will be for the foreseeable future. Through at least 2020, rural incomes will continue to grow more slowly than urban incomes.

When Myanmar consumers do shop, they tend to buy basic goods and services. Fewer than half of urban residents buy chocolate, ice cream, or fresh milk. Only about one-quarter go on vacation and fewer than four out of ten frequent restaurants. Consumers in Myanmar frequently buy entertainment products, however, especially VCRs, before they buy consumer durables. This is understandable. The uncertainty of electrical service discourages the use of expensive appliances, and the lack of movie theaters and other entertainment venues encourages at-home options. For example, 53 percent of urban consumers own a mobile phone but only 18 percent own a washing machine.

The fascination with entertainment products may subside over time as more entertainment options become available. But, as the popularity of VCRs suggests, Myanmar has some way to go before it fully joins the Internet era. Only 19 percent of Myanmar consumers use the Internet.

Zeroing in on Myanmar’s Growing MAC Class. Many companies have begun to turn their sights on Myanmar. It represents a smaller opportunity than Vietnam but a more focused one. Two-thirds of the nation’s MAC population live in urban areas, and half live in just three states—Yangon, Mandalay, and Ayeyawady. In contrast to Vietnam, where wealth is rapidly spreading geographically, Myanmar’s consumers will largely remain concentrated in these three states—which even in 2020 will remain home to 43 percent of the MAC population—making it easier for companies to enter quickly and surgically.

MAC consumers in Myanmar are much more financially secure than their less wealthy neighbors. While only 15 percent of non-MAC consumers feel somewhat
financially secure or better, 42 percent of MAC consumers feel that way. And while one-third—34 percent—of the MAC population has increased its discretionary spending in the past 12 months, just 25 percent of the non-MAC population has done so.

BCG’s consumer research suggests that sales of lifestyle products and of convenience products, such as washing machines, spike sharply when consumers hit MAC income levels. Likewise, the adoption of several indulgence products, such as face moisturizer, bottled water, deodorant, and ice cream, increases sharply among MAC consumers.

Myanmar consumers also continue to rely predominantly on traditional rather than modern formats for shopping. Only 19 percent of consumers use supermarkets regularly. Consumers are drawn to the quality and brand selection that these stores offer, but too few of them are available. City Mart, the largest operator of modern-trade stores, operates 15 supermarkets, 5 hypermarkets, and a collection of other stores. There is only one other operator of modern-format stores with more than ten outlets, all of which are convenience stores. (See the sidebar “Modern Times in Myanmar.”)

MODERN TIMES IN MYANMAR

As Myanmar’s largest retailer, City Mart Holdings is on the cutting edge of consumption trends. In a market dominated by traditional trade, City Mart has spent nearly 17 years building a network of retail outlets. Besides its supermarkets and hypermarkets, City Mart operates convenience stores, pharmacies, bakeries, cafes, and other specialty stores. It also owns a commercial-property-development company and distribution company.

City Mart has built this position despite the challenges of keeping the lights on and the shelves stocked in a nation with intermittent electricity and poor roads.

Daw Win Win Tint, the managing director of City Mart, recently shared her views on Myanmar and what companies need to do to succeed there.

What is your perspective on Myanmar’s economic outlook?

I am very optimistic about the future. Leaders in business and in government and the people all want the same thing: to catch up with our Asian peers. Sixty years ago we were one of the richest countries in Southeast Asia, and we want to be again. The government is open to trying new things and collaborating with other stakeholders to help realize the country’s potential. We have a long way to go, but the policies implemented in the past two years demonstrate the country’s commitment to growth and progress.

How would you describe the growth opportunity for businesses in Myanmar?

With a population of 61 million people, Myanmar has great potential
as a consumer market, but it will take a long time to develop. We are starting from a low base. We are just starting to buy foreign products and nonessential goods, and the size of the “new rich” class is small. We need better infrastructure and stronger government policies. But for companies with patience and an open mind, Myanmar is promising.

What are some of the risks of doing business in Myanmar?

First, talent is in high demand. Companies will need to invest in the skills of local people. Second, Myanmar does not yet have many of the characteristics of a market economy. Companies will need to adopt modern business practices so that when the market reaches critical mass, they are prepared to compete.

What are the best and most forward-looking multinationals doing in Myanmar?

They have a long-term mindset. They have a clear long-term vision and commitment to Myanmar. Their managers seek to understand the local market and consumers. They are willing to invest in training local employees and integrating them into the team in order to capture local nuances. Finally, they actively establish relationships with local stakeholders, suppliers, and retailers.

What do multinationals need to know about the Burmese to be successful?

Consumers want to have a modern lifestyle. They are willing to try new things, but they are also cautious. They are tired of being ripped off. Consumer protection regulations historically have been weak, so consumers are wary of new products. The government has also promised progress and freedom in the past. It will take time for people to believe that it will be different this time.

What advice would you give to multinationals considering entry or expansion in Myanmar?

Companies should enter now but recognize that Myanmar is a long-term play. The first-mover advantage will not last long. Myanmar cannot support many large companies yet. If you come in late, the cost to win will be much higher. In other words, they need to hurry to go slow.

MAC consumers are four times more likely than other consumers to shop in supermarkets—56 percent of such shoppers routinely buy groceries in these stores, compared with 13 percent of non-MAC shoppers. They are also much more interested in brands, quality, and an easy shopping experience than other Myanmar consumers.

Getting Myanmar Right. Myanmar is a moderate-sized but focused opportunity, with a recent history arguing in favor of a staged approach that facilitates learning
as you go and phased-in investments. Consider the following realities and questions if you are already in Myanmar or are thinking of getting in:

- **Across most categories, growth will come through increased penetration.** Do you have a plan to drive adoption at the low end of the market in order to encourage volume growth?

- **The moderate size of the market will make it difficult to launch new products just for Myanmar.** Given the relatively high cost of imported goods and limited local spending power, do you have an effective way to bring your products to market at a competitive price?

- **Consumer spending power will continue to be concentrated in Yangon, Mandalay, and Ayeyawady.** Do you have the sales and distribution networks and relationships with local partners needed to reach deep into these cities?

- **Myanmar is evolving quickly as consumers explore new products and services.** Do you have an operating model and a structure that balance opportunism and entrepreneurship with systematic and strategic development of the market?

**Vietnam and Myanmar** should be on your radar screen. Vietnam is an attractive market today and will become more so. Now is the time to make smart investments and develop an expansion strategy. If Vietnam is a here-and-now opportunity, Myanmar is a more long-term play. The market is still developing, so there is time to learn and be focused in your strategy. Still, the history of all emerging markets shows that consumption takes off quickly as soon as the MAC class reaches critical mass. It is better to be early than sorry.

**NOTE**
1. The CCCI survey asked about the following categories of goods: alcoholic spirits; baked goods; bar and liquid soap; beer; biscuits; bottled water; candy and gum; cosmetics; deodorant; facial moisturizer; frozen meat; ice cream; instant noodles; juice; laundry detergent; milk; shampoo; snacks; soft drinks; tea and coffee; toothpaste; and yogurt.
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