



## Accessing the ASEAN Consumer Market: Fashion and Accessories (Executive Summary)

Despite the lack of four distinct seasons in this tropical part of the world, [ASEAN](#) is into fashion. The region's consumer class is young and interested in various fashion styles and trends. Stimulated by the international recognition and the success of Asian fashion designers, such as Vivienne Tam, Jimmy Choo, Phillip Lim, and Melinda Looi, interest in fashion and dressing well is widely shared across ASEAN.

ASEAN has made remarkable progress in the past decade to become an economic powerhouse. According to the *ASEAN Secretariat's* data, the region's combined gross domestic product (GDP) of US\$2.76 trillion in 2017 made it the world's sixth-largest economy. With an annual growth forecast of around 5%, ASEAN is expected to become the fourth-largest economy by 2030.

Looking at ASEAN's demographics, its combined population of 642 million is the third-largest in the world, after China and India. Its rapid urbanisation, expanding skilled workforce, foreign investment inflows, and improved infrastructure are key to unlocking the region's vast economic potential.

As growing economic affluence continues to translate into consumption power, ASEAN consumers are moving from spending on basic necessities to fashion and lifestyle items. According to *Euromonitor International*, consumer expenditure on clothing and footwear amounted to US\$ 51.2 billion in 2017. Over the next five years, it is expected to expand by an average annual growth of 7.3% to reach US\$ 72.7 billion in 2022.

Among the ten countries in ASEAN, Thailand, Malaysia and Indonesia have caught the attention of many Hong Kong exporters and retailers, thanks to their fast expanding middle class and strong purchasing power. According to [HKTDC's ASEAN Middle-income Consumer Survey](#), more than half of respondents in Jakarta, Kuala Lumpur, and Bangkok indicated that they will spend more on fashion items in next two years.

City	Fashion is among the top three increasing expenditures in next two years
Jakarta (N=201)	55.7%
Kuala Lumpur (N=202)	55.4%
Bangkok (N=200)	53.0%

Source: HKTDC's ASEAN Middle-income Consumer Survey

With an aim to provide practical guidance for Hong Kong SMEs in the fashion and accessories industry, this report explores the export potential in selected ASEAN markets, namely Thailand, Malaysia, Indonesia and Singapore (as a regional hub). It evaluates the



retail structure and distribution channels, while also providing a guide to the optimal market entry and marketing strategies. Extensive trade interviews and desk research were conducted to obtain concrete market and channel information from each researched country.

### Fashion Scene in ASEAN

- The ASEAN fashion market is greatly influenced by the region's rich history, diverse customs, and religious beliefs. Chinese, Indian, Portuguese, Spanish, American, and indigenous Malay cultures all play a part in contemporary fashion in the region.
- Indonesians wear western style clothing on a daily basis, but they tend to dress more conservatively because there is a large Muslim population. Fashion in Malaysia can be described as a clash and mixture of traditional Malay garments, conservative Muslim clothing and western influences. Thais are very open to various clothing styles and they have an insatiable appetite for new fashion brands that symbolise a specific lifestyle and display a unique character.
- According to *HKTDC's ASEAN Middle-income Consumer Survey*[1], ASEAN middle-class consumers were inclined to allocate a substantial amount of discretionary spending to fashion. The distribution of fashion spending was: business attire (28%), casual wear (26%), shoes (22%), accessories (12%), travel goods and handbags (8%), and spectacles (4%).
- Different cultures in ASEAN have been moulded into a gigantic melting pot of couture. Fashion trends are characterised by tradition meets modernity, streetwear meets high fashion, and sport meets style.
- Fast fashion has taken the world by storm, and ASEAN is no different. Key players in this segment are *H&M, Zara, Uniqlo, and Forever 21*. Luxury houses dominate the high-end market and try to woo affluent tourists. Notwithstanding fierce competition, many local designers have successfully broken out, due to their deeper understanding of consumer tastes and behaviour.

### Fashion Distribution Channels

- Concept stores, department stores and multi-brand stores are dominant distribution channels for fashion in ASEAN. Aside from bricks-and-mortar retailers, e-commerce has quickly become an independent force in the fashion industry as well.

#### *Concept stores*

- Concept stores sell well-curated products matching that store's special theme. Concept stores often evoke a lifestyle appealing to a specific target audience. As concept stores are about discovery and experience, they constantly search for unique items to add corresponding accessory labels to complete their product offerings. Many foreign fashion designers and brands have found homes in these concept stores, some of them started out as an outsourced designer for a special project.
- Concept stores are a curated platform and items that they look for are:
  - innovative and original; something a little different



- stylish and quality products with range variety
- from a brand built around a concept
- from suppliers who can prove their production capacity and quality control

### *Department Stores*

- Department stores' biggest asset is their card membership. Through customer loyalty programmes and good after-sale service, department stores cultivate and maintain strong relationship with these VIP members. People visit department stores nowadays not just for shopping, but also to get a snapshot of current fashion trends.
- As millennial generation shopping trends in Indonesia have shifted to specialty outlets and online stores, Indonesia's largest department store chains, like *Matahari* and *Ramayana*, continue to transform their retail strategy in response to this shifting consumer behaviour.
- Department stores remain an important fashion distribution channel in Malaysia. Major department store chains, such as *Parkson* and *Metrojaya*, continue to upgrade their product portfolios to include a wider selection of brands attractive to middle- and high-income consumers.
- In Thailand, the department store is a landmark and a focal point for the local community. *Central Group* has *Central Department Store*, *Robinson Department Store* and *Zen*, as well as managing *Marks & Spencer* and *MUJI*. The *Mall Group* operates *The Mall* department stores, *Siam Paragon*, *The Emporium*, and *The EmQuartier*.
- The advantages of selling to department stores are that suppliers can expect the biggest volumes and sales turnover, greater brand awareness and validation, as well as more visibility to other buyers. However, the downsides are that department stores do not purchase wholesale, and they require a higher commission and extended payment terms.

### *Multi-brand Fashion Stores*

- Multi-brand fashion stores are retailers that offer a variety of fashion brands, possibly including their own label, ranging from apparel to accessories. ASEAN countries have seen rapid growth of multi-brand stores because consumers need avenues where diverse fashion items are readily accessible.
- ASEAN consumers are no longer satisfied with standard fashion goods. To stay relevant, multi-branded retailers are constantly in search of new brands and items that differ from the standard in order to create a robust and immersive lifestyle. This offers ample opportunities for designer and retailer collaborations in special capsule collection projects.

### *Online Platforms*

- E-commerce penetration is still only 3% of total retail sales in ASEAN. The diversity of ethnicities, languages, and consumer preferences, underdeveloped infrastructure, as well as consumers' reluctance to use digital payment are key constraints. Countries with less severe physical infrastructure constraints, such as Malaysia and



Thailand, have seen faster growth in online shopping. Indonesia has strong long-term e-commerce potential given its large and rapidly growing middle class and young consumer market.

- ASEAN consumers are technology 'leapfrogs', who skipped desktops and went straight to mobile phones. Further, no online platform has achieved more than 20% of consumers in any country. Today's ASEAN fashion ecommerce market includes classified sites (*Mudah* and *OLX*), [C2C](#) (*Tarad*, *Tokopedia*, *Bukalapak*, *Shopee*), [B2C](#) (*Lazada*, *Zalora*, *MatahariMall*) and brands' own sites (*H&M* and *Adidas*). Legacy retailers, like *Central Group* and *MAP Group*, have also embraced e-tailing by creating their own online platforms.
- As a market practice, sellers on a third-party marketplace do not pay listing fees, but pay a commission only when someone buys their products (*Shopee* currently does not take commission from transactions). Both *Lazada* and *Shopee* provide support for sellers with cross-border logistic programmes and multiple payment methods.

### Social Commerce

- The high mobile phone penetration in ASEAN, the fact that the ASEAN consumers are reluctant to share their financial and personal information online, and less than 20% of the population (except Singapore) using either debit or credit card to make payments explains why [social commerce](#) has become such a booming phenomenon in ASEAN.
- In Thailand, the vast majority of online shoppers make purchases through social media, making it the biggest social commerce market in the world. *Kerry Express* in Thailand confirmed that 65% of its deliveries are from C2C, i.e. mostly social commerce. *Facebook* has chosen Thailand as the first test base for social commerce payments and *Facebook Shop*. However, social commerce is tricky to measure because the negotiation and transaction happen online, but payment typically happens offline.
- For fashion and accessories items, selling through *Instagram* and *Facebook* is also on the rise. Social commerce presents a great opportunity for emerging fashion and accessories brands to test consumer markets in ASEAN without too much financial commitment.

### Market Entry Methods

- Luxury houses, such as *Louis Vuitton*, *Christian Dior*, *Chanel*, *Prada*, and many more, usually enter the ASEAN market by opening self-owned flagship stores to ensure a total control of brand image. Sportswear brands, such as *Nike* or *Adidas*, mostly expand by means of franchising. Fast fashion brands, such as *H&M*, *Zara*, and *Uniqlo* are now joining luxury houses to open branded retail shops in major cities across ASEAN.
- Apart from global brands, most overseas fashion suppliers distribute their products mainly in multi-brand fashion stores and mid- to high-end department stores. Hong Kong fashion suppliers can approach leading retailers which are actively looking for fresh designs and new items to complete their product offerings. Concept stores,



such as Thailand's *Jaspal*, present good opportunities for niche and new face designers. These concept stores are usually more receptive to collaboration ideas, as long as the designer can come up with an innovative and unique concept.

- Up-and-coming fashion designers can also approach department stores with their portfolio or propose a joint promotion event, such as a trunk show. Key department stores in the region have brought overseas designers who were cutting edge but not well-known to ASEAN consumers.
- One major shortcoming of selling direct to retailers is that suppliers have to sell on consignment and major department stores ask for a credit term up to 60 days. Extended payment terms do not give much flexibility for suppliers to manage their cash flow effectively.
- When selling direct to retailers, overseas suppliers need to take care of delivery to retailers' stores or distribution centres (DC), retail merchandising and display, marketing and promotion plan and providing on-premises sales, each of which requires initial setup and constant attention.
- An alternative way to minimise the initial investment in a new market is selling through a local agent or distributor. Manufacturers or suppliers can quickly start retail penetration in a selected ASEAN country through the distributor's network without having to involve company resources in channel building.
- Distributors can help finance transportation and handle customs clearance. They may have a system in place to keep track of inventory in the DC and individual retail stores and help replenish merchandise in a timely manner. They also understand the culture, consumer tastes, and shopping behaviour in the local market. An experienced local distributor in ASEAN can be very valuable, as each ASEAN country has its unique mix of ethnicity, language, and religion.
- The downsides of working with a local distributor are that in return for taking on the supplier's trade-related risks and burdens, distributors will expect heavy discounts and generous credit terms. Secondly, suppliers may lose some control of the way their products are marketed and priced. Thirdly, distributors often demand a long period of geographic exclusivity.
- Selling direct to ASEAN consumers via e-commerce will be the next big wave in cross-border trade. Hong Kong fashion brands and suppliers who want to get a share of the high growth fashion market in ASEAN must not ignore the online channels that sell direct to consumers, even if they are currently distributing through distributors and/or retailers.
- Selling direct to consumers have many benefits. Firstly, time to market is significantly decreased; secondly, brands can have complete control of their brand image and pricing. Most importantly, it allows brands to gain access to consumer data.

### Get Prepared!

- Difficulty in obtaining trade finance is one of the challenges facing small business in Hong Kong. Now, SMEs can find institutes to fund their retail orders based on the



purchase order or invoice from an overseas buyer.

- E-commerce sellers cannot accept overseas orders until they find an answer to cross-border payments. Payment solution providers who offer one-stop secure online payment services that support multi-delivery channels and multi-currencies can assist. *AsiaPay*, *PayEase*, and *NTT Com Asia* are some examples.
- Regional e-fulfilment hubs combined with cross-border shipping are widely used by Hong Kong companies to operate e-commerce sales into the fragmented ASEAN markets. Many companies chose Singapore as a regional e-fulfilment hub because the city state is particularly cross-border friendly, with low customs tax close to zero, mature infrastructure, and transparent customs regulations. Malaysia is another choice of regional distribution hub, as land is much cheaper and operational and labour costs are substantially lower than in Singapore.
- There are ample marketing avenues for fashion brands with different budgets. Large brands can choose to take part in large-scale iconic fashion shows in the region, such as the *Bangkok International Fashion Fair* and *Kuala Lumpur Fashion Week*. Smaller brands can showcase their collections in private fashion events organised by fashionista and public relations consultants. Partnering with a retailer to host a trunk show is another alternative.
- Social media has become an essential tool for marketing, public relations, and customer service. Brands need to make sure that their social media content is timely, engaging, and relevant to their target market. They can also hire Influencers to gain immediate access to the right customers.

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[1] The survey covered five ASEAN countries, namely Thailand, Malaysia, the Philippines, Indonesia and Vietnam.

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