

Indian Consumer Market

a change from pyramid to sparkling diamond



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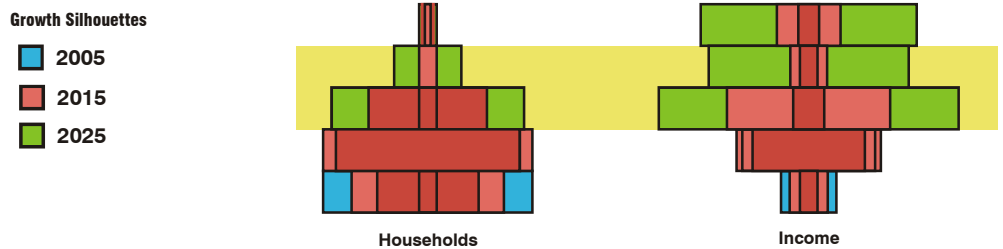
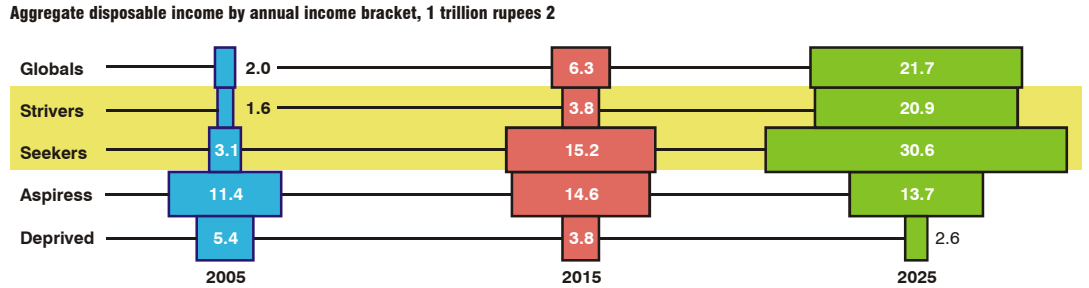
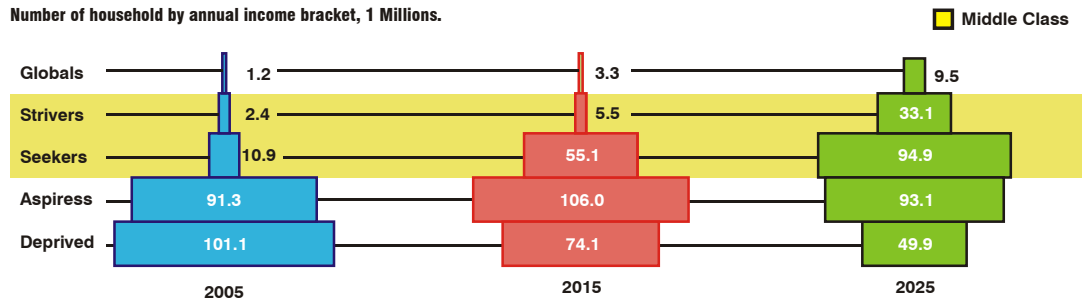
India's ascendance as an economic power to reckon with, has forced the world to unravel the mystery called India.

An intriguing element of this mystery is India's consumer market; characterized by diverse languages, regions, religions, economic and social status, this market has always been a tricky proposition to understand.

Now, as the market undergoes a paradigm shift due to India's rapid economic growth and favorable demographics, it has also become a market impossible to dismiss.

Global corporations view India as one of the key markets from where future growth will emerge. The growth in India's consumer market will be primarily driven by a favorable population composition and rising disposable incomes. A recent study by the McKinsey Global Institute (MGI) suggests that if India continues to grow at the current pace, average household incomes will triple over the next two decades and it will become the world's 5th-largest consumer economy by 2025, up from 12th now.

India's consumer market till now was broadly defined as a pyramid; a very small affluent class with an appetite for luxury and high-end goods and services at the top, a middle-class at the center and a huge economically disadvantaged class at the bottom. This pyramid structure of the Indian market is slowly collapsing and being replaced by a diamond – a relatively large affluent class at the top, a huge middle class at the center and a small economically disadvantaged class at the lower end. The diamond represents increasing volume and value across all classes of Indian consumer market.



Source: The McKinsey Quarterly

Economic growth and rising disposable incomes

India is growing at an average annual rate of 7.6% for the past five years and it is expected to continue growing at an equal if not faster rate. The rapid economic growth is increasing and enhancing employment and business opportunities and in turn increasing disposable incomes. As the benefits of growth trickle down, an increasing number of people are moving up from the economically weaker class to join the middle class.

The middle class with its rising numbers and incomes is thus becoming the biggest market segment. The affluent class too will continue to grow in terms of size and value, albeit, at a slower pace than the middle class.

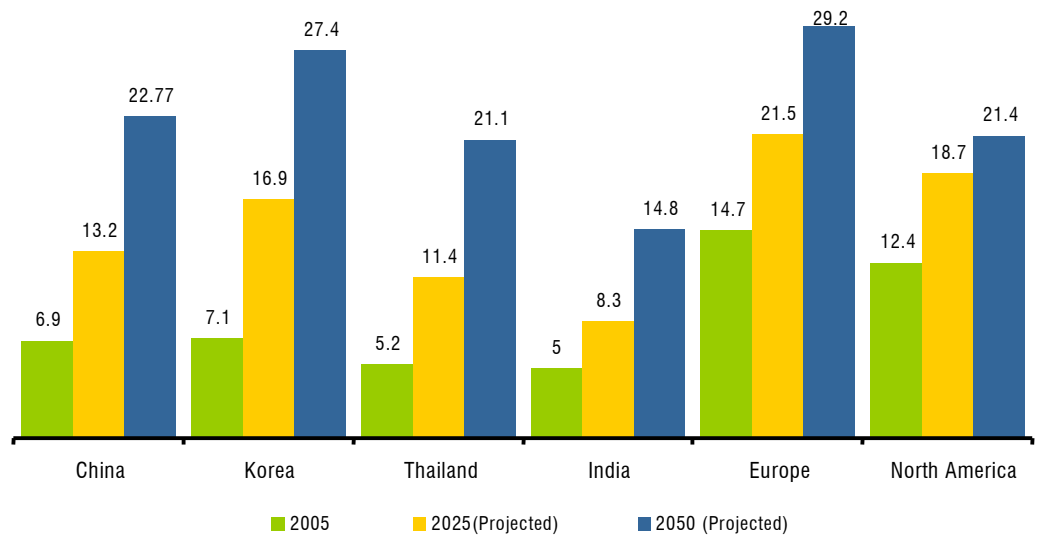
MGI study prediction on the effect of economic growth on different classes

- Middle class, defined as households with disposable incomes from Rs 200,000 to 1,000,000 a year comprises about 50 million people, roughly 5% of the population at present. By 2025 the size of middle class will increase to about 583 million people, or 41% of the population.

- Extreme rural poverty has declined from 94% in 1985 to 61% in 2005 and is projected to drop to 26% by 2025.
- Affluent class, defined as earning above Rs 1,000,000 a year will increase from 0.2% of the population at present to 2% of the population by 2025. Affluent class's share of national private consumption will increase from 7% at present to 20% in 2025.

Pro-growth demographics

The widespread adoption of improved medical care and birth control since the 1970s has reduced birth rates and increased the proportion of citizens living past their retirement age in most countries. As these countries have an aging population, they are beginning to face an acute shortage of working age population, while the proportion of dependent population is increasing.



India along with a few other countries is an exception to this. In India, the proportion of citizens of working age is forecast to fall slowly and the overall labor force will continue to grow. India has a young population, 54% of Indians are under 25 years of age. A rising productive population fuels growth and drives personal consumption and a lower age dependency ratio places less strain on public finances. A young, economically empowered population not only translates into increasing consumer demand but also into a more value-conscious demand. Thus, pro-growth demographics will expand consumer market in India. The National Council of Applied Economic Research (NCAER), forecasts that the number of consumers driving growth will grow from 46 million households in 2003 to 124 million households in 2012.

Decoding the empowered Indian consumer

The Indian consumer market is drawing global attention not just because of its promise of sheer volumes but also because of the tectonic shift happening in the nature of demand. Increasing urbanization, increasing incomes and rising aspiration for a better life, especially, among the lower economic strata are some of the factors reshaping the Indian consumer market. The result of this flux is a new Indian consumer who is more discerning than ever, ready to place his money on brand, quality and convenience and eager to explore the organized retail market.

Aspiration for a better life

As millions of economically deprived households move into the lower strata of the middle class segment, they will begin to be able to afford and demand products and services beyond food and clothing. Increasing penetration of media and infrastructure facilities will expose the rural India to urbanized lifestyle and fuel the latent desire for improved living standards. Together the 'aspirants' from rural and urban areas will push up demand for goods and services at the lower end of the spectrum.

Value and innovation

The new Indian consumer will be as discerning when buying a product as his previous avatar. In fact, due to a rise in income, increased awareness about products and proliferation of choices, he will become pickier with his purchases. Product, positioning and packaging innovation will be the key for companies to attract this new consumer. For example, as consumers become increasingly health conscious they will choose a food product that not only tastes great but is also fortified with health benefits. Similarly, global products especially in case of food will have to be adapted to suit the local taste as the Indian consumer while becoming global will continue to be attached to his roots. It is no wonder, that international fast food chains have had to Indianize their pizzas and burgers to attract consumers here.

Companies will have to drive innovation differently for different regions and consumer classes. The sachet or pouch innovation for example, has given a head start to FMCG companies for penetrating the rural India. The rural India too like the urban area is beginning to demonstrate a demand for packed goods but their purchasing power limits their capacity to buy. When products like edible oil and shampoos were made available in small pouches, they were well received by rural India.

The brand conscious consumer

The Indian consumer market, which is primarily dominated by young generation, is becoming increasingly sophisticated and brand conscious. A typical upper middle class young consumer is beginning to look beyond the utility aspect of a product to seek intangibles like brand and lifestyle statement associated with the product. This modern consumer wants his purchases to reflect his lifestyle or at least the one he aspires for. As a result of this brand consciousness, the food and beverage segment of the FMCG sector is already witnessing a significant shift in demand from loose to branded products.

The Indian affluent class has always had a penchant for premium branded goods and this fetish will continue. A recent luxury brands survey conducted by The Nielsen Company, a global information and media research company, has ranked India third after Greece and Hong Kong in the list of most brand conscious countries in the world. Over 35% of Indian respondents said they spend money on luxury brands.

Food, Beverages and more...

As several first time consumers enter the market, demand for food and beverages will continue to increase. The MGI study estimates that growth in consumption will accelerate to 4.5% annually by 2025, from 3% witnessed over the past 20 years. Rise in income and increasing social and economic awareness will fuel expenditure on health, education, communication, transport and entertainment. Thus, electronic goods, personal care, health care, automobiles sectors are expected to receive a significant boost in the coming years.

Organized retail

Indian consumer purchasing is largely through the unorganized sector or through the kirana stores. Organized retail constitutes a small percentage of the Indian retail market. However, with urbanization and increasing value-consciousness among consumers, the organized retail format is beginning to take root. The organized retail format promises consumers better quality and better shelf-life for products due to their excellent storage facilities and anti-tampering checks. An important factor attracting consumers towards formal retailing mechanisms such as hypermarkets and departmental stores is the shopping experience. These shopping outlets allow consumers to explore their choices and touch and feel products in the comfort of a glitzy and energetic environment, something a kirana or mom and pop stores have never been able to offer.

The Indian consumer market is thus on a cusp of metamorphosis. The upbeat mood of the economy, the youthful exuberance of the population and its increasing integration with globalized lifestyle and consumption patterns will drive growth in the Indian consumer market. However, to assume that the Indian consumer will become an exact replica of his global counterpart is the biggest fallacy companies can make. While, the Indian consumer's appetite for value and brand dominated goods and services is increasing, the cultural and regional framework characterizing him is intact.

In fact, the income induced class movement happening across the rural and urban regions is forcing companies to re-look at their customer segmentation and product positioning.

Consumer companies are thus realizing that the Indian consumer market is a tough nut to crack but the one they can't do without.



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