

Indian Consumer Markets

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As rapid socio-economic changes sweep across India, the country is witnessing the creation of many new markets and a further expansion of the existing ones. With over 300 million people moving up from the category of rural poor to rural lower middle class between 2005 and 2025, rural consumption levels are expected to rise to current urban levels by 2017.

According to a study by the McKinsey Global Institute (MGI), Indian incomes are likely to grow three-fold over the next two decades and India will become the world's fifth largest consumer market by 2025, moving up from its position in 2007 as the 12th largest consumer market.

The next decade belongs to Indian and Chinese consumers as Asian consumers will continue to splurge owing to improving economic conditions, forecasts the new economic outlook report by Canadian Imperial Bank of Commerce (CIBC) in Toronto released on May 25, 2009. Also, households will be confident that their newfound wealth is not ephemeral, allowing them to reduce precautionary savings.

Moreover, approximately 315 hypermarkets are expected to come into existence in tier-I and tier-II cities across India by the end of 2011, riding on the boom in organised retail sector, says a joint study by consultancy firm KPMG and industry body, ASSOCHAM.

Marks & Spencer and Reliance Retail joint venture is planning to open 35 more stores over the next five years. It already has 15 stores in India.

Carrefour SA, Europe's largest retailer, has said it may start wholesale operations in India by 2010 and has initiated discussions with more than 600 suppliers as part of the plan. It aims to open its first cash-and-carry in the National Capital Region (NCR).

Rural Consumers

FMCGs have seen over 20 per cent demand in rural markets ahead of the 17-18 per cent growth in urban India. According to AC Nielsen, mainstay categories like hair oils, toothpastes, shampoos, skin creams and lotions, and even candies saw more growth in rural markets than urban.

The overall number of rural households is estimated to grow to 153 million in 2009-10 from 135 million in 2001-02. Further, as per an NCAER report, compared to urban areas, the 'lower middle income' group in rural areas has nearly doubled. This major consumer base accounts for 41 per cent of the Indian middle class

having access to 58 per cent of the total disposable income.

The mobile boom has now also hit rural India. According to a report jointly released by the Confederation of Indian Industry (CII) and Ernst & Young, of the next 250 million Indian wireless users, around 100 million (40 per cent) are expected to be from rural areas.

FMCG

The FMCG sector has been registering double-digit growth in sales since the last couple of years. Currently estimated at US\$ 17.42 billion, it is the one of the most promising sectors in India.

Despite the economic recession, the industry is expected to register a value growth of 14 per cent in the fourth quarter of 2008-09 as compared to the corresponding period last year.

Amway, the US-based direct selling FMCG major, plans to make India its sourcing hub as its Asian business has surpassed the total turnover that it witnessed in other parts of the world. Of Amway's global business, India clocked a turnover of US\$ 227.32 million in 2008, registering a year-on-year growth of 40 per cent.

The food and beverages (F&B) market in India holds great potential. AT Kearney estimates the market sales of F&B retailing in India at US\$ 135 billion and growing at 10-15 per cent annually. The Ministry of Food Processing Industries is also planning to double the market size of the food processing industry to US\$ 165.1 billion by 2009-10 and trebling it to US\$ 271.8 billion by 2014-15.

The Indian market researchers RNOS's report on the cosmetics market in the country predicts annual growth of nearly 7 percent between 2009 and 2012. Defining the cosmetics market as comprising of skin care, hair care, colour cosmetics, fragrances and oral care, RNOS said it is currently worth US\$ 2.5 billion.

Luxury Products

With the rapidly increasing number of millionaires in India, the market for luxury brands is growing annually at a compound average growth rate (CAGR) of about 35 per cent.

According to a FICCI-Yes Bank report, India is set to become a manufacturing hub for global luxury brands over the next four to five years and the manufacture of luxury items in India can grow to US\$ 500 million. The luxury products market in India likely to grow at a CAGR of 28 per cent to reach US\$ 1.2 billion by 2010. The market is expected to double by 2015, touching US\$ 2.5 billion.

The latest entrant is DKNY which will set up exclusive stores in India.

Consumer Durables

A combination of changing lifestyles, higher disposable income, greater product awareness and affordable pricing have been instrumental in changing the pattern and amount of consumer expenditure leading to robust growth of consumer durables industry.

A flurry of hi-technology durables are expected to be introduced in the US\$ 4.09 billion Indian durables market in 2009. Samsung, LG, Haier and Videocon are among companies planning new product launches in the coming months. Airconditioner (AC) and refrigerator sales spiked 30-35 per cent in April compared to same month last year.

Automobiles

Presently, India is the second largest two-wheeler market in the world, the fourth largest commercial vehicle market, the 11th largest passenger car market and is expected to be the third largest automobile market by 2030.

Global auto makers are still bullish on India. Describing India as one of the promising emerging markets Toyota Motor Corporation is going ahead with its US\$ 655.60 million second plant at Bidadi, near Bangalore.

To drive sales, Daimler Motors, Skoda Auto and Volkswagen, are entering the US\$ 4.50 billion auto loan market in the country. Indian auto majors, Bajaj Auto, Tata Motors and M&M are already offering loans through their own finance subsidiaries.

Growth of E-commerce

As broadband connectivity grows in India – according to the Telecom Regulatory Authority of India (TRAI) India had 4.73 million broadband internet connections at the end of August 2008 – online purchasing is growing. According to a global online survey by A C Nielsen, a staggering 78 per cent of Indians (who access internet) make purchases online, with credit cards being the preferred mode of payment.

Consumer Confidence

The Indian consumer remains one of the most upbeat globally.

The Nielsen Global Consumer Confidence study, conducted by Nielsen, a market research company revealed that Indians are "the most optimistic lot globally who think that their country will be out of the economic recession in the next twelve months." India was at the top of the survey with 114 points, a remarkable 30 points

above the global average of 84.

Exchange rate used:

1 USD = 49.66 INR (as on April 2009)

Marketing and Strategy

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With market liberalisation, increasing consumerism and the entry of more foreign players, Indian markets are seeing revolutionary changes. The Indian consumer is rapidly evolving and is spoiled for choice by a host of international brands selling their products at competitive prices.

According to a study by the McKinsey Global Institute (MGI), India's middle class will swell by more than ten times—from its current size of 50 million, to 583 million people—by 2025. And over 23 million Indians—more than the present population of Australia today—will be counted as billionaires. By 2025, India will also become the 5th largest consumer market, surpassing Germany, moving up from the 12th position it occupied in 2007.

In the seventh annual Global Retail Development Index (GRDI) conducted in 2008, India stood second as the most attractive destination for retail investment. It is estimated that the Indian retail market will increase from US\$ 330 billion in 2007 to US\$ 427 billion by 2010 and US\$ 637 billion by 2015. Organised retailing comprises just 4.6 per cent of the currently estimated Indian retail market. However, this segment grew nearly 40 per cent in 2007 and is estimated to increase to 22 per cent by 2010.

Rural Market: The Next Big Opportunity

The rural market offers great untapped potential. In 2008, the rural market grew at an impressive rate of 25 per cent compared to the 7-10 per cent growth rate of the urban consumer retail market. Further, according to international consultancy firm Celent, the rural market will grow to a potential of US\$ 1.9 billion by 2015 from the current US\$ 487 million.

Today, the rural market accounts for a hefty share in most market segments—55 per cent of LIC policies, 70 per cent of toilet soaps, 50 per cent of television, fans, bicycles, tea and wrist watches.

Also rural India is less affected by the global slowdown. Consequently, an increasing number of marketers are targeting it across fast moving consumer goods (FMCGs), cars, two-wheelers and consumer durables.

FMCG is clocking over 20 per cent demand in rural markets, ahead of the 17-18 per cent growth coming from urban India.

Nokia plans to tap the growing rural market with 93 million subscribers. It is tying up with various micro finance institutions. Moreover, it is trying to reach into rural areas with 'showrooms on wheels' and 'Rural care on the go'— marketing and servicing vehicles, respectively.

Brand Extensions

In a bid to garner higher market share and sustain long-term growth, FMCG companies such as Coca-Cola, Nestle, PepsiCo, Dabur, Marico and Godrej have adopted a brand extension strategy amid negative factors such as high inflation and the global financial crisis.

According to marketing research company IMRB, the FMCG companies launched 251 products (223 variants and 28 brands) in calendar year 2007 as against 191 (173 variants and 18 brands) in 2006. The industry pegs the number of variants and extensions launched in 2008 to be in line with 2007.

Nestle launched a record number of variants in 2008—from its Maggi Cuppa Mania, Maggi Pichkoo to Maggi Bhuna Masala. Dabur too unveiled a pudina variant of its popular Hajmola brand apart from extending its Gulabari skin-care range.

In terms of categories, brand extensions in personal-care, household-care and processed foods drove growth in the FMCG sector.

Media and Communication Channels

Word-of-mouth remains the most important influence in the buying decision of the Indian consumer—a fact confirmed by 85 per cent users who participated in a recent global Nielsen Internet survey. Among the top ten countries that attach maximum importance to the recommendation of the fellow consumer, India ranks fourth while Hong Kong tops the list.

Newspaper (77 per cent) is the second most trustworthy advertising medium while television ranks fifth at 65 per cent. For the Internet users, online opinions are at the third position with a 73 per cent vote.

There is an 82 per cent rise in the number of brands advertised on television during 2008 compared to 1999, according to a new survey by AdEx India, a division of Tam Media Research. Print ad volumes has seen rise of 2.2 times between 1999 and 2008.

According to Radio Audience Measurement data, 49 per cent listeners access radio from their mobile phones. Fostered by its increasing popularity, private FM is

especially emerging as a preferred communication channel for the marketers in India.

Moreover, digital media advertising (internet, mobile and digital signage) is expected to emerge as the medium of choice for advertisers. Of the available media, it was the fastest growing segment in 2008. Its better return on investment and the comparative ease with which its efficacy can be measured will ensure that the trend continues, say analysts.

Rising interest in social networking in 2008 has made brands think seriously about online advertising. According to a FICCI-PwC report, it is expected to touch US\$ 212.91 million in 2011 from the current US\$ 58.1 million.

Companies such as HUL, Tata Tea, Titan, HDFC among others are using peer-to-peer network on sites like Facebook or Twitter to spread product reviews and create a buzz around the brand.

Brand Consciousness

A Nielsen Global Luxury Brands study (March 2008) reveals that India has the third highest brand-conscious population in the world—with only Greece and Hong Kong ahead of it. Thirty five per cent of Indian consumers, who participated in the survey, showed inclination towards buying branded products.

This rise in brand consciousness has engineered a noticeable change in the luxury landscape in India. Growing at an annual average rate of 26 per cent, India has been identified as a significant driver in the global luxury market.

Packaging and Design

Both packaging and design are increasingly being seen as potent marketing tools for product differentiation and communication with the consumer. Convenient packaging assures consumers of the product quality and helps boost sales. The recent Asian Paints campaign marks a new trend among advertisers, who are now looking to attract consumers with try-vertising—or mainstream advertising that encourages them to try the sample or smaller-sized product—while also building brand image.

Rural Market

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The Indian growth story is now spreading itself to India's hinterlands. Rural India, home to about two-thirds of the country's 1 billion population, is not just

witnessing an increase in its income but also in consumption and production.

The interim Budget's focus on extending the National Rural Employment Guarantee Act (NREGA) to all states with a US\$ 5.83 billion outlay for 2009-10 would benefit the rural economy. The rural economy got a further boost with the farmer loan waiver of US\$ 13.86 billion and the ambitious Bharat Nirman Programme with an outlay of US\$ 34.84 billion for improving rural infrastructure.

Additionally, the rural economy has not been impacted by the global economic slowdown, according to a recent study by the Rural Marketing Association of India (RMAI).

The study found that the rural and small town economy which accounts for 60 per cent of India's income has remained insulated from the economic slowdown. Moreover, rural incomes are on the rise driven largely due to continuous growth in agriculture for four consecutive years.

According to a McKinsey survey conducted in 2007, the rural India market would grow almost four times from its existing size in 2007, which was estimated at US\$ 577 billion.

Furthermore, high-end brands like Tommy Hilfiger are also bullish on small towns. Small towns currently contribute around 20 per cent of the brand's sales. This could go up to one-third in two years' time.

FMCG

Rural consumers spend around 13 per cent of their income, the second highest after food (35 per cent), on fast moving consumer goods (FMCG), as per a RMAI study.

The FMCG industry in India was worth around US\$ 16.03 billion in August 2008 and the rural market accounted for a robust 57 per cent share of the total FMCG market in India.

Moreover, according to an ASSOCHAM study, FMCG sector in rural areas is expected to grow by 40 per cent as against 25 per cent in urban areas.

Most FMCG companies are now working on increasing their distribution in smaller towns and focussing on marketing and operations programme for semi-urban and rural markets.

Industry analysts state that the increased consumption is also the result of a growing middle class base in these markets. The total number of rural household is expected to rise to 153 million in 2009-10 from 135 million in 2001-02, suggesting

a huge market.

Retail

The rural retail market is currently estimated at US\$112 billion, or around 40 per cent of the US\$ 280 billion retail market. Major domestic retailers like AV Birla, ITC, Godrej, Reliance and many others have already set up farm linkages. Hariyali Kisan Bazaars (DCM) and Aadhars (Pantaloan-Godrej JV), Choupal Sagars (ITC), Kisan Sansars (Tata), Reliance Fresh, Project Shakti (Hindustan Unilever) and Naya Yug Bazaar are established rural retail hubs.

Pharmaceuticals

According to a report by McKinsey, the rural and tier-2 pharma market will account for almost half of the growth till 2015. The tier-2 market will grow to 44 per cent by 2015, amounting to US\$ 8.8 billion.

This growth will be further augmented with the government allocating US\$ 2.35 billion for the National Rural Health Mission (NRHM) in the interim budget 2009.

Telecommunication

A Gartner forecast revealed that Indian cellular services revenue will grow at a compound annual growth rate (CAGR) of 18.4 per cent to touch US\$ 25.6 billion by 2011, with most of the growth coming from rural markets. Also, a joint Confederation of Indian Industries (CII) and Ernst & Young report reveals that of the next 250 million Indian wireless users, approximately 100 million (40 per cent) are likely to be from rural areas, and by 2012, rural users will account for over 60 per cent of the total telecom subscriber base in India.

Mobile phones in rural India also grew by close to 13.72 per cent to reach 70.83 million in April-June 2008. CII also estimates the number of subscriber addition in rural areas to exceed the additions in metros by 2012 as about 120 million new users are expected to adopt wireless telephony in rural areas as compared to about 62 million in the metros.

Automobiles

Passenger car and two-wheeler companies are driving on rural roads to push sales. While growth in urban markets has been flat or negative, the rural markets are booming, insulated from economic downturn. Rural markets' share in Maruti's overall sales during April-January 2009 has gone up to 8.5 per cent from 3.5 per cent in the same period last year.

Mahindra & Mahindra is also bullish on the rural and semi-urban markets, with its utility vehicle, Scorpio clocking 60-65 per cent sales from the rural markets as

against 20 per cent earlier. TVS Motor also registered around 50 per cent of its sales from the rural and semi-urban markets.

Consumer durables

A survey carried out by RMAI has revealed that 59 per cent of durables sales come from rural markets.

Many leading consumer durable companies are now increasing their presence in rural India. Recently, LG has set up 45 area offices and 59 rural and remote-area offices. Samsung has also rolled out its 'Dream Home' road show which was to visit 48 small towns in 100 days in an effort to increase brand awareness of its products.

Road ahead

The development of rural infrastructure is an important priority for the government and out of the total projected investment of US\$ 283.83 billion to be incurred by the centre and the states in the Eleventh Plan, US\$ 80.82 billion would be spent entirely towards improvement of rural infrastructure.

According to international consultancy firm Celent, rural markets in India will grow to a potential of US\$ 1.9 billion by 2015 from the current US\$ 487 million. Rural markets are growing at double the pace of urban markets and for many product categories, rural markets account for well over 60 per cent of the national demand.

Exchange rate used:
1 USD = 49.82 INR (as on April 2009)

Urban Market

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According to a study by the McKinsey Global Institute (MGI), Indian incomes are likely to grow three-fold over the next two decades and India will become the world's fifth-largest consumer market by 2025. In the given scenario, urban markets will continue to fuel the Indian economy for quite some time to come.

Moreover, expenditure by the middle class accounts for the bulk of India's urban consumer expenditure. About 61 per cent of total urban income comes from households that can be classified as middle class—earning between US\$ 1,493 and US\$ 9,955 a year.

Further, India is likely to see rapid urbanisation, with around 45 per cent of Indians living in urban areas by 2050, up from 30 per cent in 2007-08, according to a study co-authored by National Council of Applied Economic Research's (NCAER) Rajesh

Shukla and Future Capital Research's Roopa Purushothaman.

Retail

According to a report by McKinsey, India's overall retail sector is likely to grow to US\$ 419.93 billion by 2015.

According to global real estate consultant, CB Richard Ellis, India has moved up to the 39th most preferred retail destination in the world in 2009, up from 44 last year. The turnover of the organised retail segment in India is pegged at around US\$ 8.1 billion. It is expected to reach US\$ 51 billion by 2010.

Retail opportunity is slated to rise by about US\$ 160 billion in India in five years. In urban India, modern retail is likely to grow from the current 9.6 per cent of total retail to 26 per cent in the next five years, as per Technopak Advisors.

Consumer Durables

The Indian consumer durables market seems to be relatively untouched by the economic slowdown. The consumer durable goods output witnessed a 2.5 per cent rise in durables output in the first quarter of 2009, according to a report by the Development Bank of Singapore (DBS).

Colour televisions have seen an increase in sales, growing 2 per cent to 2.8 million units in January-March 2009, according to the figures released by ORG-GFK.

Whirlpool is on the expansion mode and is targeting a 22 per cent share of the US\$ 423.28 million washing machine market in India by the end of 2009, and is launching a range of new products with an investment of US\$ 4 million for the same.

Moreover, a large number of hi-technology durables are expected to flood the US\$ 4.03 billion Indian durables market in 2009. Samsung, LG, Haier and Videocon are among companies planning new product launches in the coming months.

Automobiles

Improved consumer spending sentiment, revival of bank lending with relatively low interest rates and new models have resulted in automobile companies registering positive car sales during the first four months of 2009.

Indian consumers, mostly in metropolitan cities, are shifting to the premium compact segment from the entry mid-sized sedan segment. The market also saw the launch of new cars including Maruti's Ritz, Mahindra & Mahindra's Xylo and Skoda India's New Laura.

Further, the premium compact car segment will be abuzz over the next year with launches expected from almost all other car makers — Hyundai Motors, Honda Sael Cars, Toyota Kirloskar, Fiat Auto, Volkswagen India and Ford India.

FMCGs

Across urban markets, there has been a tremendous growth in the sales of value-added and aspirational products. These products are expected to drive the FMCG industry to grow by 16 per cent during 2008-09, against 14.5 per cent during 2007-08.

Most FMCG companies have come up with reduced pack or SKU (stock keeping units) of soaps, shampoos, beverages, biscuits and even butter, to boost consumption and increase affordability for consumers. Earlier the strategy was positioned mainly for rural markets, but now it has panned out across towns and cities as well.

Luxury Products

According to a FICCI-Yes Bank report, the luxury products market in India is estimated in excess of US\$ 500 million and is likely to grow at a CAGR of 28 per cent to reach US\$ 1.2 billion by 2010. The market is expected to double by 2015, touching US\$ 2.5 billion.

While many brands like Armani, Dolce & Gabbana, Louis Vuitton, Salvatore Ferragamo, luggage brand Piquadro, Marks & Spencer, La Perla, Jimmy Choo and Toy Watch have already forayed into India, some brands are waiting for the government to allow 100 per cent foreign direct investment in retail.

DKNY is looking at setting up exclusive retail stores in the country. Louis Vuitton also plans to open stores in Kolkata, Chennai and Hyderabad in the next 3-5 years.

Direct Selling

The direct selling market in India will benefit from the global recession with the segment posting 20 per cent growth annually to reach an expected US\$ 1 billion by 2012.

Leading direct selling companies like Amway India and Oriflame Cosmetics are planning to cover more areas in the country.

E-commerce

The increase in the personal computer and Internet penetration along with the growing preference of Indian consumers to shop online has given a tremendous boost to e-tailing—the online version of retail shopping. Several online retailers are

reporting good business in categories like travel, art, books and music. E-tailing in lingerie and fresh fruit businesses is also doing well.

According to TRAI there were 5.45 million broadband subscribers in India on December 31, 2008, up from 5.28 million in November 2008.

Road Ahead

The Indian consumer remains one of the most upbeat globally. The Nielsen Global Consumer Confidence study, conducted by Nielsen, a market research company revealed that Indians are "the most optimistic lot globally who think that their country will be out of the economic recession in the next twelve months."

In fact, it is widely believed that the Indian market will fuel the growth of multinational companies in the coming years. While most leading companies are cutting costs in the US and Europe, they see India as a strategic market, which can fuel their growth.

Exchange rate used:

1 USD = 50.22 INR (as on April 2009)

1 USD = 49.15 INR (as on May 2009)