

A billion buyers' marketplace

India's consuming class has put the nation on the world map, with every large multinational scurrying to set up an India shop



Two centuries back, India was known as a 'bird of gold'. Today, it is fast regaining that status, thanks to its burgeoning consuming class. From consumer durables to cars, laptops, mobile phones, microwaves, cinema tickets, fast food and luxury goods, Indian consumers are lapping up all. And this shopping jamboree is playing catalyst to India's

growth process.

The Indian populace's tryst with consumerism has been rather interesting. Unlike China, where growth has been investment-led, the growth in India has largely been led by consumption. With the changing economic scenario, it's not only the rich who are spending more. It's the great Indian middle class that's thrown caution to the winds and is on a

spending juggernaut.

India is currently the twelfth largest consumer market in the world. According to a study by McKinsey Global Institute, India is likely to join the premier league of the world's consumer markets by 2025, improving its position to the fifth.

The face of changing India is reflected in the growth numbers across sectors such as airlines, hotels, FMCG, automobiles, retail and telecommunications. For instance, passenger car sales have been growing at a steady pace, recording a growth rate of 12.63 per cent during April-July 2007. Similarly, organised retail is growing at rates of over 30 per cent. India's FMCG sector grew by 22 per cent in 2006, to touch a market-size of over \$17.36 billion. It is set to treble from \$11.6 billion in 2003 to \$33.4 billion in 2015 .

On the one hand, the Indian middle class is loosening its purse-strings; on the other, companies are doling out lower priced products, economical tariffs, attractive finance options and other marketing schemes to hook more buyers.

For instance, thanks to the influx of low-cost airlines, the number of airline passengers rose by over 18 per cent to 86.8 million in the financial year 2006-07. Similarly, with the lowering of tariffs, new schemes and the availability of cheaper handsets, the penetration of mobile telephones has increased rapidly. The Indian mobile telephony market is the fastest growing in the world, adding around 5 million subscribers each month. India added 15.5 million mobile subscribers in the first quarter of this year, taking the total to 165.1 million.

Urban India's newfound romance with malls is visible everywhere – from smaller towns to metros. According to the India Retail Report 2007, during 2006, total private consumption touched \$488 billion (at current prices) with the organised sector accounting for \$13.4 billion business, increasing its share to 4.6 per cent (up from two per cent in 2003) of the total Indian retail value that stood at \$293 billion. Moving forward, organised retailing is projected to grow at around 37 per cent in 2007 and 42 per cent in 2008.

Little wonder then that almost all

large retailers – such as Pantaloon, Reliance, RPG, Lifestyle, Subhiksha, Rahejas, Piramyd, Trent and the Vishal Group – have big expansion plans. Reliance alone is investing \$7.3 billion to set up multiple retail formats with expected sales of around \$22 billion by 2009-10. The Bharti Group plans to invest around \$7.7 billion in creating a retail network in the country, including 100 hyper malls and several hundred small stores. It has signed a joint venture agreement with Wal-Mart. Several global luxury brands have also set up shop in India.

With the largest population of the young in the world – over 890 million people are below 45 years of age – India is indeed a resplendent market. India has more English-speaking people than in the whole of Europe. And this pre-

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dominantly young population has proved to the world that Indian manpower is not just low-cost, but also highly skilled and efficient. It is the one force that has taken India to the big league, making it a potential economic powerhouse.

As a result of economic growth, household incomes have risen at a fast pace. As per an NCAER study "The Great Indian Middle Class", in 1995-96, barely three per cent of the population used to earn above \$4,877 (Rs. 2 lakh) per annum. In 2002-3, that proportion rose to six per cent (or roughly 60 million people) and today, it is estimated to be around 100 million. By 2010, this number should rise to around 150 million, with roughly 10 million earning over \$24,384 (Rs.10 lakh) and more.

"India's continued high growth rate since 2003 represents a structural increase rather than simply a cyclical up-

turn," says a recent Global Economics Paper, brought out by Goldman Sachs India. The recent growth spurt was achieved primarily through a surge in productivity and is sustainable. As per this report, India's contribution to world growth will be "high and increasing." India's GDP (in dollar terms) could surpass that of the US before 2050, making it the second largest economy after China, it adds.

The change in consumer mindsets in the post-liberalisation era has been rather drastic. In the pre-liberalisation era, most Indian households saved for a rainy day. Today, the Indian consumer thrives on loans and credit cards. With a job scene that is booming, a host of avenues are open to even college students. Retail chains, BPOs, KPOs, mobile phone companies, data processing firms have all contributed to the job explosion. On the employment front, it is expected that an additional 25 million jobs will be created by the end of this decade as a result of export growth.

As the Indian economy grows, so will its 'consuming' class. It is estimated that today, 70 million Indians earn a salary of over \$19,507 (Rs. 800,000) a year, a figure that is set to rise to 140 million by 2011. With increases in income, the shape of the country's income pyramid will also change dramatically. "Over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will swell by more than ten times from its current size of 50 million to 583 million people by 2025," says a recent study 'Bird of Gold': The Rise of India's Consumer Market – brought out by McKinsey & Company. By 2025 over 23 million Indians—more than the population of Australia today—are expected to number among the country's wealthiest citizens.

With rising incomes, aggregate consumption in India is expected to grow four-folds in real terms – from \$420.7 billion in 2006 to \$1.73 trillion in 2025. India has entered a long-term virtuous cycle in which rising income lead to rising consumption, which in turn creates more business opportunities and employment, thereby further fuelling GDP and income growth. India's growth is truly unstoppable. 🌱