The Consumer Boom

Since the liberalisation bandwagon began to roll during the early nineties, India made a dramatic transition from being a supply-constrained to a demand-driven economy. With a large middle-class population and their rising level of affluence, the country has one of the largest consumer markets across the globe and is reckoned to be at par with the other Asian behemoth, China.

Consider the following facts:

- India is the sixth largest mobile handset market with sales over 16 million units during 2003. It is expected to overtake South Korea to become the fifth largest market by 2005.
- The car market, at a million-plus unit sales annually, places India at the 12th slot in the global tally. During the next three years, India is expected to become the seventh largest car market. It is also expected to overtake Italy, Canada and Brazil — all recording negative growth now. With an annual growth rate of 29 per cent during 2003, it is next only to China's 83 per cent growth.
- India is the fifth largest colour TV market with annual sales touching 8 million sets.
- It is the world's second largest two-wheeler market (China being the largest) with 5.36 million sales and this buoyant growth is expected to continue for quite some time to come.

India today offers tremendous market potential with a rapid growth rate in a wide range of products.

POLICY INITIATIVES

On the back of the consumption boom, investment norms have been liberalised considerably in order to accommodate foreign direct investment in this domain.

- 100 per cent automatic FDI is allowed in the consumer durables sector for instance electronic hardware such as TV sets, video players, refrigerators, ACs etc.
- In the automobile segment, especially cars, 100 per cent FDI is allowed under the automatic route
- In the Fast Moving Consumer Goods (FMCGs) segment such as food processing, 100 per cent FDI is allowed under the automatic route

CONSUMPTION TRENDS

The trend in aggregate consumer spending also corroborates the consumption boom in the economy. The rate of growth of spending on discretionary items (unlike basic necessities like food) has been growing at an average of 9 per cent per year over the past five years. Significantly, the rate of growth has been recording a sharp spurt during the past two years. Historically, a nation of savers, India has now become a nation of spenders.

The India Brand Equity Foundation collates, publishes and disseminates well-researched and comprehensive information on the Indian economy and industry. We present here a feature from the IBEF publication *Consumption,* prepared by Crisil, which profiles the opportunities in the $50 billion, and growing, market

Key consumer markets: growth and size

US$ billion	1998-99	2003-04	CAGR	Share (in per cent)
New Housing	26.04	30.85	3.4	66.3
Passenger Cars	2.97	5.75	14.1	12.4
Two-wheelers	2.38	3.32	6.9	7.1
Colour Televisions	1.26	1.48	3.2	3.2
Washing Machines	0.21	0.24	2.1	0.5
Refrigerators	0.52	0.67	5.1	1.4
Air Conditioners (window and split)	0.33	0.48	7.5	1.0
Personal Computers	1.10	1.90	11.6	4.1
Mobile Handsets	0.09	1.81	82.0	3.9
Total	34.91	46.49	5.9	100.0

Source: CRIS Infac

Keeping up with the global joneses

The Indians' consumption patterns are also slowly converging with global norms. The Indian consumer is now spending more on consumer durables, apparel, entertainment, vacations and lifestyle related activities. Entertainment, clothing and restaurant dining are categories that have been witnessing a maximum rise in consumer spending since 2002. Globally, it is observed that as the income levels rise, the share spent on food and grocery in the total household income declines and the proportion of income spent on lifestyle-related activities increases.

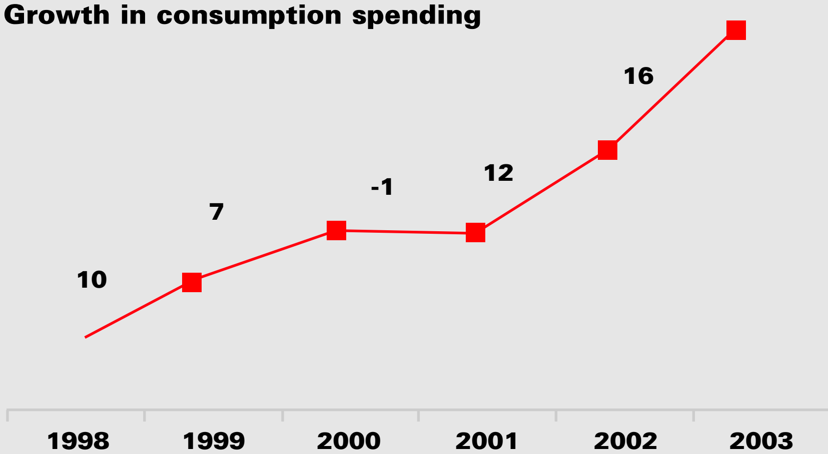
Rising volumes, not prices

The domestic consumer product markets have become intensely competitive both in the durables and non-durables (FMCG) segments. In an environment where supply is no longer a constraint, consumers are demanding more and better products at much lower prices. Thus, prices in these categories have been sluggish and in some cases have even declined over the past few years.

Sachets: small is beautiful and affordable too

Affordability is crucial in India's farm-dependent economy, where two-thirds of the billion-plus population live off the land and often only buy daily supplies. To reach a larger populace, especially in rural areas where people are usually daily wage earners, selling products in lower-priced small packs is the best way to get a share of their wallets. From shampoos, toothpastes and detergents to food products like jams, ketchup and coffee, everything comes in sachets and costs as little as 2.3 cents to 4.6 cents. Small pack sales have turned out to be a great success and have a major share in the toplines of marketers. For example, sachet sales constitute 70 per cent of the $213 million shampoo market.

Growth in consumption spending



Note: Growth figures are in per cent
Source: KSA Technopak Consumer Outlook 2004

Borrowing to buy

The Indian consumer has been traditionally hesitant about debt but this mindset is changing rapidly. Consumer loans from banks for an array of consumer purchases ranging from cars to holidays, is now an accepted payment method. The popular concept of Equal Monthly Instalments (EMIs) with predictable and planned outflows is making indebtedness more acceptable. The falling interest rate regime has also given credit offtake a big leg-up. As a result, personal credit offtake more than tripled from about $11.1 billion during 2000 to about $34.3 billion during 2003. However, not all of this has come from direct consumer loans, as credit cards too have played a major role. There are over 9 million credit card users in the country and this market is growing at a healthy rate of 25 per cent annually.

The rise of retailing

The retailing space has historically been dominated by the unorganised sector largely by small-sized shops clustered together in a market. The most important change in the retailing pattern that led to the boom in consumer spending has been the rise of organised retailing. The size of the organised retail industry was estimated at $4.2 billion during 2003 with an annual growth rate of 8.5 per cent. This space is expected to log a ten-fold growth from the present 2 per cent of the total retail industry to a significant 20 per cent by the end of the decade. According to a report by global consulting firm AT Kearney, India takes the second place globally in the retail development index. Other international reports too affirm the AT Kearney ranking. According to a Knight Frank survey, India ranks fifth amongst the 30 emerging retail markets in

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the developing countries.

Present scenario in retailing

At present, the organised retail activity is concentrated mainly in the apparel, food & beverages and entertainment segments. The organised apparel segment is expected to grow at a steady 9.5 per cent per annum over the next three years, driven primarily by the large domestic brands such as Westside, Wills Lifestyle, Shoppers' Stop, Pantaloons, Ebony and Globus. Of the three, the food and beverages segment is likely to see a higher growth rate.

Food retailing

The food and beverages retail segment can broadly be classified into three segments:

- Coffee house chains
- Fast food chains
- Groceries

The food and beverages business is primarily driven by coffee house chains. The forerunners in the business, Barista and Café Coffee Day, today have a total of around 400 retail outlets across the country. In the fast food segment, all the global names such as McDonald's, Pizza Hut, Sub Way, Dominos et al have a foothold in the domestic market. The efficient delivery system and overall services at these outlets have enabled these firms to nurture a growing client base.

Additionally, the organised grocery segment has been witnessing significant activity in the southern markets in India. Stores built on the format of Foodworld and Nilgiris in southern India have expanded the boundaries of grocery markets, which have so far been extremely localised.

The mall boom

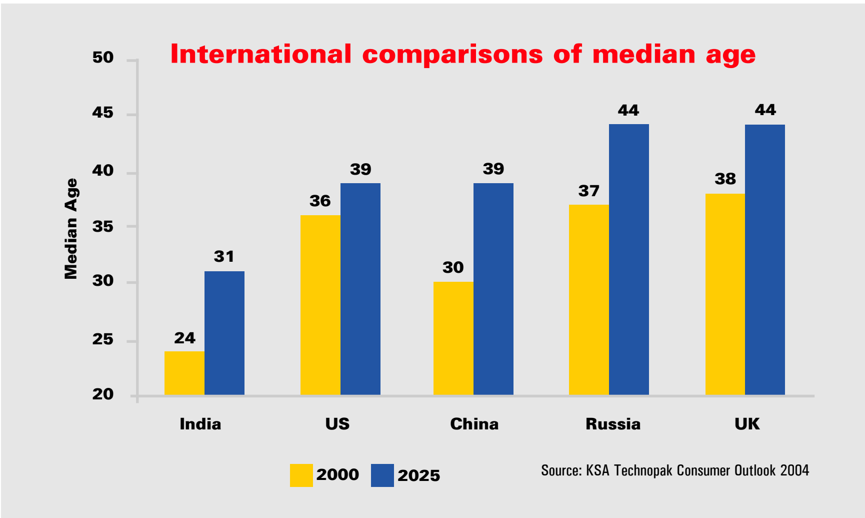
Another notable trend is the development of integrated retail-cum-entertainment centres or shopping malls. An increasing number of retailers are focusing on malls now as opposed to standalone developments. While the number of shopping malls has seen a massive surge in the recent past in the metros and their suburbs, the latest trend in this sector is the increasing focus on providing leisure activities such as multiplexes, facilities for kids' entertainment, eateries etc. within the mall premises. These are enclosed, air-conditioned, multi-level malls of at least 100,000 sq ft.

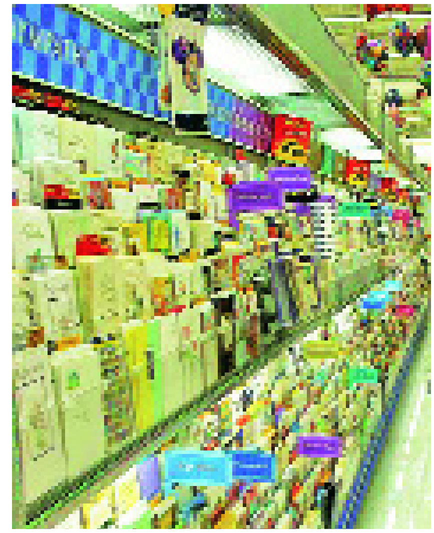
Critical to these malls is the concept of the anchor, the key outlet or store around which other outlets cluster. The most popular Indian anchors include Shoppers' Stop, Globus, Pantaloon, Lifestyle and hypermarkets like Big Bazaar and Giant. Cinemas also often anchor malls. Driven by the lucrative tax breaks, the old single-screen theatres are being divided into three-five smaller screens, as was done in the US, years ago. Gurgaon, adjoining New Delhi, has the highest concentration of malls in the country now, with the average size of its malls being around 200,000 sq ft and the anchors occupying 50,000-60,000 sq ft space. Newer malls are bigger, with some planned in the 500,000 sq ft to 1.1 million sq ft range.

A noticeable feature in this sector is the fact that investment in the retail real estate space continues to yield the highest returns as compared to the residential and office segments. Yields are in the range of 13-16 per cent annually. For example, the housing and retail financing major, HDFC, has achieved a net annual return of 15.43 per cent on its initial investment into the Shoppers' Stop, Pune. The space leased out by Adidas at New Delhi's Ansal Plaza has yielded an annual net return of 15.84 per cent to the investor.

The direct selling revolution

Direct selling does away with the need for a retailing intermediary and reaches out to the consumer at his house through a sales agent. With the boom in the consumption pattern, this is another concept that has come of age in the country. Worldwide, the direct selling industry grosses around $83 billion business annually and employs about 40 million sales force. India is the fastest growing direct selling market in the world with cumulative sales of about $0.343 billion. From the perspective of employment and other economic linkages, the direct selling model has critical benefits since 90 per





cent of the goods sold in the country are sourced from the small-scale sector and as many as 70 per cent of the direct salespersons are women. The bulk of direct selling is concentrated in the field of cosmetics, household products, cookware and health food. Most of the big names in the global direct selling industry like Amway, Tupperware and Avon are present in the domestic marketplace.

EMERGING OPPORTUNITIES

A slew of factors are catalysing the growth in consumption, namely the burgeoning middle-class with a high level of disposable income, over a half-a-billion youth, a good percentage of them affluent, the BPO boom and the resultant thickening of their wallets and exposure to foreign culture etc.

The bulging middle class

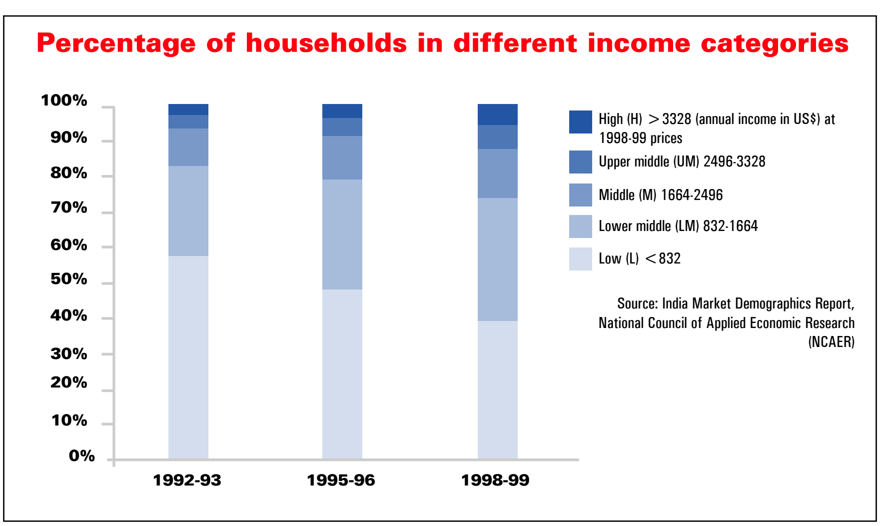
One of the key reasons for the increased consumption is the impressive growth of the middle class. At the start of 1999, the size of the middle class was unofficially estimated at 300 million people, larger than the entire population of the United States. And this figure is expected to grow to 445 million by 2006.

A detailed survey undertaken by the economic think tank NCAER provides a quick view on how the proportion of the middle segments (UM or upper middle, M or middle and LM or lower middle) has grown over the years since the opening up of the economy.

The young and the affluent

The age structure of India's population is also favourable. 44 per cent of the population is in the under-19 age bracket, with their literacy rate pegged at over 75 per cent. Going forward, the working population (19-60 year olds) is expected to increase from 485 million to 615 million by 2010 with an educational base of 21 million professionals and 90 million graduates/post graduates.

The household mix is also changing fast. By 2006-07, the consuming class will form around 46 per cent of the total households as compared to around 17 per cent during 1995-96, according to an NCAER report. The combination of both these fundamental factors, age and household mix, led to the emergence of a huge consumer base for various products and services. By 2006-07, the consuming class is likely to have a large share of the population pie, as can be seen from the following figure.



The sunrise sectors and the rise of the new Indian professional

The Indian organised job market is also going through a rapid transformation phase. The 'old economy' of large-scale manufacturing and conservative salary structures is no longer the dominant entity in the corporate horizon. A booming services sector, especially the IT, ITES and BPO segments, have generated huge job volumes. The IT industry, for instance, created employment for over 700,000 professionals during 2002-03 alone.

Anecdotal evidences suggest that the services sector professionals are younger, draw higher average salaries and are more willing to spend.