

The consumer is ready; are companies?

Updated: 12 Mar 2015, 12:48 PM IST Rama Bijapurkar, Rajesh Shukla

An asymmetry between supplier optimism and consumer optimism has been a regular feature in India

The Indian consumer is feeling very good right now. Across the rich and poor, and those who live in both urban and rural India, there is a strong belief that the good times are around the corner (echoing the Achhe din aane wale hain slogan on which the Bharatiya Janata Party rode to power last year). Since October 2014, when this survey was done, inflation has eased further, and there has been a decrease, albeit one that could be temporary, in fuel prices, while food prices have cooled.

In short, there is no reason for the optimism evident late last year to have dissipated by now. This sentiment has translated into confidence that incomes will improve or, at worse, stay the same. Sure, there are those who remain uncertain, but across the board, the indicators do suggest that the Indian consumer is ready and waiting.

In the context of some recent comments, this would also seem to suggest that the consumer is feeling a lot better than companies.

But then, this is not the first time that there is an asymmetry between supplier optimism and consumer optimism. Indeed, this gap has been a regular feature in India.

In the late 1990s and early 2000s, we had a phase in which industry was ready, seduced by story of an emerging and expanding middle class that eventually turned out to be premature. Back then, incomes were still low and not enough for all categories to benefit. That was also the era of aggressive promotions. Wags said people could get a one-bedroom flat free if they bought a colour TV, and consumer goods companies practised BIG3F (buy one, get three free) marketing! Then, both were ready and we had the great years between 2003 and 2008.

In 2008, the supply side, companies, prepared for a period of dark demand, but rural India came to the rescue in 2009-10 and saved the day.

Half of India's GDP comes from consumption.

So, how does Consumer India feel? Which parts of it will energize the economy and entice marketers to move into a higher gear?

Mint brings you a view from the consumers themselves, the results of a rigorous all-India survey of 20,000 randomly selected households (drawn from a listing of 100,000 households and their members) across 21 states and over 1,000 locations—from the metros all the way to villages, including boom towns, niche cities, and census towns in the twilight zone between urban and rural.

This is Consumer India—not just the visible urban spenders that we see in big cities and so-called tier 2 towns or the progressive rural consumers we see in villages adjoining roads that connect well-known destinations.

The fieldwork for this survey was done between July and October 2014.

This is the first offering of the new ICE 360° data platform, created by the two-year-old not-for-profit research centre **People Research on India's Consumer Economy (PRICE)**, founded by Rama Bijapur-

kar, an expert on the Indian market and the consumer economy, and Dr Rajesh Shukla, who has designed and executed landmark databases and analytical constructs on India's consumer economy. The ICE 360° data platform provides data and insights on how India earns, spends, saves, lives, thinks and accesses amenities and public goods.

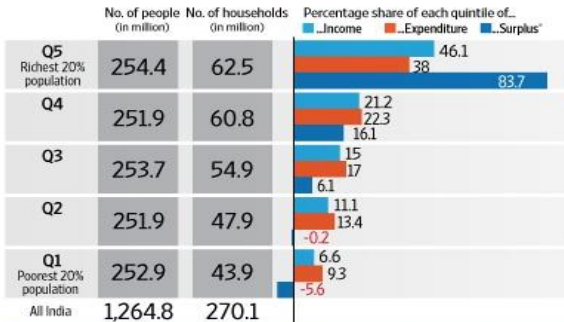
"Developing or evaluating business strategy or public policy based on macro indicators—per capita, all India averages and supply sided data—is not very meaningful in such a diverse country as India, which is getting more heterogeneous by the day," says Bijapurkar.

Shukla points out that "in developed countries, there is a wealth of integrated household-level data on income, expenditure and savings which are up to date. India does not have deep and regular data of this kind to aid policymakers and business".

The not-for-profit construct is "to keep us honest and not deviate from our mission", says Bijapurkar. "The data will be available for scholars and academics around the world to use," adds Shukla.

Who has the spending power? Where will consumption growth come from?

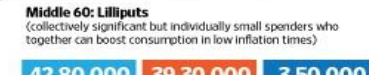
Per capita income based population quintiles



CONSUMER SEGMENTATION

(Estimated income, expenditure and surplus income at 2013-14 prices)**

■ Annual household income (₹ cr) ■ Annual household expenditure (₹ cr) ■ Annual household surplus income (₹ cr)



How are they feeling? Very Good! Across the board!

Extent of agreement with slogan "Acche din aane wale hain"

■ Can't say ■ Disagree (somewhat or strongly) ■ Somewhat agree ■ Strongly agree



Corporate India may not have total faith in "acche din" but Consumer India is a definite believer. If the supply side decides to stimulate demand, then Consumer India is ready across the board. It takes two to tango and weak revenue growths of companies are not necessarily a reflection of weak consumer demand, but of a tepid and timid marketing strategy.

HEAVY CONSUMERS: The 'Top 20' (Quintile 5) of Indian households, the so-called middle class, drive high value consumption that we typically track—cars, home, luxury brands, etc. They have enough surplus to drive spending growth should their confidence and sentiment improve.

THE LILLIPUTS: The next 60% (Q4,3,2) are individually small spenders but collectively significant and spend more than Q5. The difference is that the surplus per capita of each household is one-tenth as much as the Heavy Consumers. Use both levers and consumer spending revives.

* What's left after routine and non-routine expenditures. ** Income estimates using ICE 360° survey distribution and National Accounts (CSO) personal disposable income data.

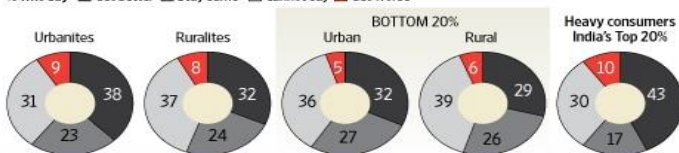
General feel good or financial feel good? Both?

Those who agree that "Acche din aane wale hain"...



My household's economic status in the next 3 years will

% who say ■ Get better ■ Stay same ■ Cannot say ■ Get worse



Overall half of India's household income and consumption spending are in rural India. Rural average household incomes this past decade have risen faster than their urban counterparts and the whole rural juggernaut is ready to march, that's where we see the full colours of Consumer India.

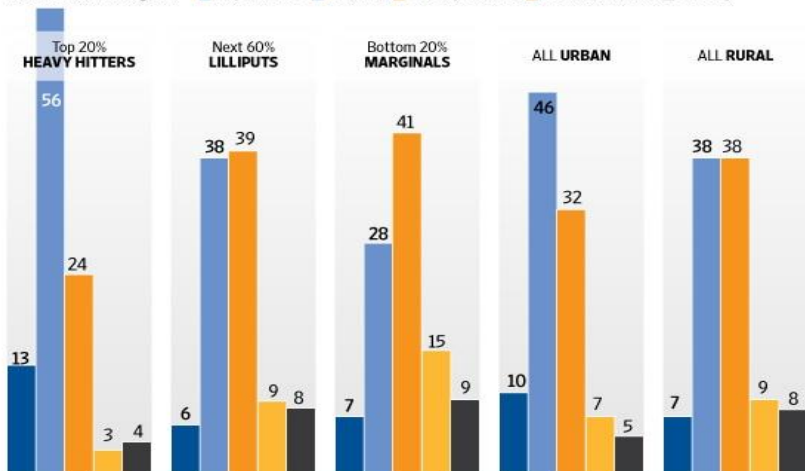
Past vs Future feel good: Not complaining, not expecting a decline, future will be better than the past

■ Last 3 years, my household financial situation has ■ Next 3 years, my household financial situation will



Confidence in stability of major source of household income

% of each consumer segment ■ Very confident ■ Confident ■ Not very confident ■ Not at all confident ■ Can't say

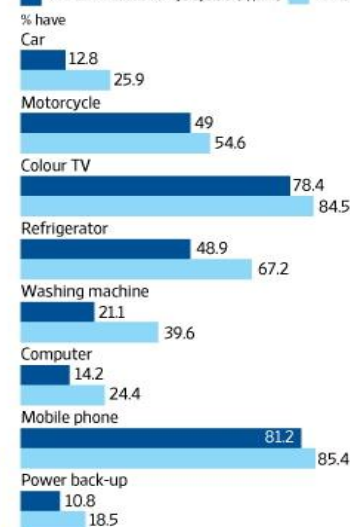


In a country of self-employed people, income uncertainty is here to stay. Consumer India, like Producer India, has seen business cycles in the last decade. But there is no cause for worry in the mind of consumers, especially heavy consumers. However, there is nervousness around income stability that cannot be dismissed.

Is there headroom for growth? Plenty!

Average household income per annum (₹)

■ TOP 20%: All India 4,00,000 (approx.) ■ TOP 20%: Urban India 5,30,000 (approx.)



The top 20% of urban India is the crème de la crème of consumer India with the highest per capita income and highest exposure and accessibility to all forms of consumerism. Yet even their penetration levels are low-hanging fruits waiting for an insightful marketer who understands that the Indian rich are still globally average. For the top 20% rich of India, the so-called middle class, there is still low penetration in terms of high value necessities like cars, washing machines and computers.

Since then, there has been good news and bad news. Consumer India has been reeling under price rises and high interest rates that have made monthly payments all but unaffordable, but rural wages have increased, especially because of the government's job guarantee scheme.

Then came the 2014 elections. Today the consumers are ready, willing and able to spend. Incomes have grown, the price wars have helped them sample goodies, tomatoes don't cost ₹80 a kg. Firms must seize the day. There is a lot of headroom for growth; even at the top end, the market is far from saturated.

Many consumers in urban India have practiced abstinence for the past few years and this has created a lot of repressed demand. Rural incomes have grown faster than urban incomes—a large number of people consuming a little more each year does translate into a large number.

If the finance minister can convince India that the good days are really here—and if the Reserve Bank of India plays ball—we could be ready to roll.

This is the first in a four-part series on the health of Consumer India.