Listen To The Consumer

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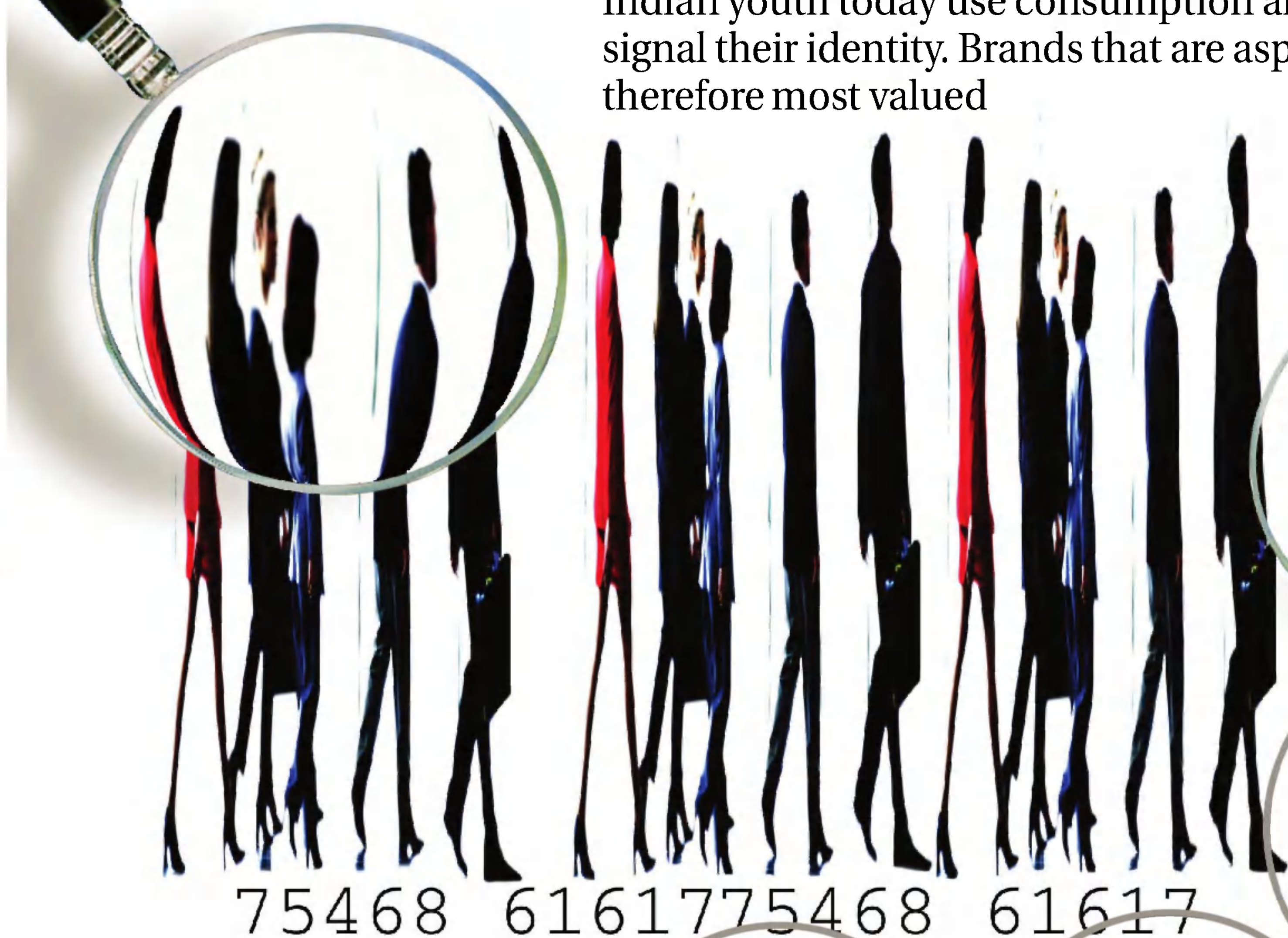

63%
Rise in income of a household after a member gets a matriculation degree compared to an illiterate household

459 mln
Literate youth in 2009 among 459 million youth, according to NCAER-CMCR youth readership survey estimates

3-5 times
The growth of second rung cities such as Surat, Baroda, Pune and Chandigarh over that of the national average

2015
By when the average household size is estimated to drop from 5 to 4.81. That is 1 million households added every year

GUEST COLUMN

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LAST WEEK I met a low income consumer called Suraiya Khatun. Her family of three has a household income of ₹8,000 per month. The family lives in a single room which doubles up for a bedroom, kitchen as well as living area. They use a discount soap and an unbranded detergent powder. Alka on the other hand uses one of the most expensive brands of shampoo. And of skin care as well. While she buys a sachet for her use, she aspires to buy the bigger bottle and jar. Alka is sixteen and has studied upto class ten. Alka represents two of the three biggest demographic shifts that India has been witnessing; younger consumers in smaller households. The third shift is the concept of several India due to regional differences in economic growth.

A younger, more literate India is driving the growth of consumption in India. The NCAER-CMCR youth readership survey estimates that of the 459 million youth in 2009, 333 million are literate. While the average youth stops studying at just 15, even this level of literacy has a material impact because the income of the household rises by a whopping 63 percent after a matriculation degree when compared to an illiterate household. Everybody recognises that these younger, more affluent consumers have a fundamentally different attitude to consumption compared to their parents. They are after all the ones who are early adopters of most categories. But they are puzzling as well. So while they are the ones who like Alka Goel, buy expensive brands in some categories the same Alka Goel also buys cheaper brands in other categories. What explains this puzzle? Indian youth today use consumption and brands as a way of signalling their identity. Brands that are aspirational are therefore most valued.

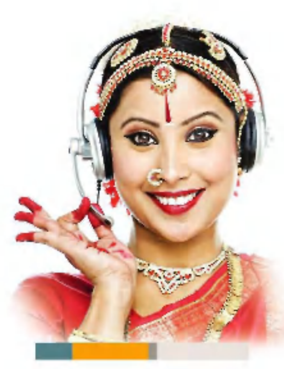
An equally interesting facet of this new India is to be able to sharply define who they are. This young India is not reflected in the lives and wallets of the few million that live in the top cities and study in English speaking schools. For example, when Airtel launched a service called Music on Demand for ₹30 a month, the most downloaded genre of music was not Hindi, Tamil or English but Bhojpuri. Or when Axe launched its Call me campaign inviting people to call, a mammoth 50 lakh youngsters dialled in, 90 percent of who were from tier 2 and tier 3 towns.

The second demographic shift is the changing family structure. The pace of urbanisation and increasing literacy is accelerating this shift to smaller families. NCAER-CMCR estimates that the average household size will drop from 5 to 4.81 by 2015. That is 1 million households added every year simply on account of smaller family structures. There are three impacts of smaller families. First, more opportunities for growth of several categories where the household is the basic unit of decision making. Televisions, refrigerators, household cleaning products amongst others will see accelerated growth.

Secondly, each member of the family with a much larger voice over what they want. More voice means more choices and a rising trend of more personal solutions for individual needs resulting in greater fragmentation as smaller segments develop. Take a look at the male grooming market. There has been an explosion of growth coupled with a proliferation of shaving products, shampoos for men and fragrances for men.

Thirdly, in some households that also have working women, the impact will be further exacerbated. Many new services such as housekeeping, eating out, creches and tuition services will become significant. And for the first time each of these segments will become viable as their absolute sizes will be large enough to support business models targeted at them.

Clearly several businesses will be built. In addition, this market will perhaps continue to see substantial level of fragmentation before it starts consolidating. This is evident in the skin care category. As many as 978 brands and variants were launched in the last three years to target these emerging segments. (Incidentally with a cumulative market share of a mere 9.8 percent.)



When Airtel launched a service called Music on Demand for ₹30 a month, the most downloaded genre of music was not Hindi, Tamil or English but Bhojpuri

The third demographic shift is that we will continue to see several Indias. In the last decade many of the southern and western states have seen far higher income growths when compared to the rest of the country. Even within a state there are stark differences. Many parts of Vidarbha for example are exactly similar to East UP, both in terms of income as well as consumption. Or take a look at second rung cities such as Surat, Baroda, Pune and Chandigarh. These have grown at about 3-5 times that of the national average. It is therefore not enough to look at India as one. Deciding where to compete will be a critical strategic choice. For example, by the tyranny of averages a player believed that it was the number 1 national player. However, a deeper look at state level performance clearly revealed that its leadership position was at risk; It was number 1 only in three of the top ten states, none of which were the fastest growing states. Clearly, crafting a smart portfolio of markets should be the first step in defining the strategy for India.

What do these demographic shifts imply for businesses in India? First, be flexible about which market segment and category to prioritise. Creating a dynamic portfolio of markets and categories that are reviewed every year based on a fact based understanding of return on investment will be crucial. Second, ensure brands, new or old, remain aspirational and relevant for a young India (even questioning holy cows on large, existing brands). Third, build an organisation that is comfortable with ambiguity, relentlessly focused on the consumer and is hungry to learn.

The Indian consumer has humbled many players. Winners in this market will listen to the emerging consumer, be nimble to respond to her needs and be humble to learn from the mistakes that each of us make.

(Gopal Vittal is also on the board of the company)