

Consumption & Retailing In India In The Years Ahead

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Independent India may be over sixty years old but a large majority of Indians today are not even in their middle age. Life expectancy has crossed seventy years, but more than 890 million Indians are below the age of forty-five. Half of the country hasn't yet reached the age of twenty-five. We are a 'Republic of the Young' wherein the young generation has never been part of our socialist era and doesn't know scarcity. They value choice and freedom and have seen India winning in every arena, be it sports, business, technology or even beauty pageants. In effect, they are far more confident about their place in the world and justifiably proud of their Indian origins. They not only believe in change, but are confident that they can affect change. A young working population will not only drive productivity but also set a spiraling effect on consumption and income generation. A young nation is willing to work harder, earn higher and spend more on buying goods and services.

The Economic Impact of Modern Retail

Few can deny that India today provides the single biggest consumption opportunity in the world. Consensus is that the macro trends in urbanization, demographic shifts and income growth will be positive and irreversible. Over the course of the last six decades, Indian GDP grew and touched \$1 trillion dollars. However, at the current growth rate, India's GDP will double within this decade and add another trillion dollars to its economy. What took almost sixty years, will happen over the course of a decade. This additional trillion dollar of new economy will throw up new opportunities including a doubling of consumption demand in the country. The additional \$450 billion of discretionary consumption demand can be catered to by modern retailers.

Retail is a significant contributor to the overall economic activity the world over. Apart from being one of the largest employers the total retail share in the World GDP is as high as 27 per cent. While in the United States retail accounts for 22 per cent of the GDP, the share of organized retail in the developing markets ranges between 20 per cent and 55 per cent.

In India, modern retail is poised to grow at over 35 per cent every year for the next few years. India's peers such as China and Brazil, took 10-15 years to raise the share of their organized retail sectors in the total retail pie from 5 per cent to 20 per cent and 38 per cent respectively. Modern retail now captures just 4 per cent of total retail trade in India and this figure will hit the 20 per cent level far faster than it has anywhere in the world.



The world over, the growth of modern retail has played a significant role in the transformation of the economy. Though the emergence of modern retail has been somewhat late in India, its impact in boosting consumption can't be denied. Increase in consumption is now driving manufacturing, thereby creating more jobs and income for the entire population. The change is far more dramatic when one considers that with the popularity of modern retail, the market for packaged and value-added food products is expanding at a fast pace. This is providing the much-needed boost to value creation in agro-products. In turn there is more wealth-creation and rise in consumer demand even in the smaller towns and semi-urban centers.

While capturing the empirical evidence behind these trends, the much-venerated consultancy giant, McKinsey & Company recently came up with a report titled, 'The Bird of Gold: The Rise of India's Consumer Market.' Apart from throwing up a host of numbers on the consumer market in India, the report confirmed the emergence of a virtuous cycle between consumption and income growth. Increased consumption has meant higher manufacturing, more jobs and wealth creation. "While consumption grew slowly in the decade before the 1991 reforms, it has been an important engine of Indian growth over the past decade, accounting for over half of India's GDP growth during 1995-2005," stated the report and went on to add, 'One of the greatest dreams of all Indians has been an economy that could lift the country's millions out of destitution, and India's reforms have been very successful in making progress towards that goal.'

The Challenges & the Opportunities

The most challenging and exciting time to live in, is on the cusp of change. And that is where India is today. We are on the cusp of change wherein a huge, multicultural India is transforming from a socialist economy to a consumption-led creative economy. The scope and depth of change that is taking place across India, is unparalleled in its history. This change provides both a humongous challenge and a gigantic opportunity for marketers and retailers.

Changing demographic profiles, increasing income levels, urbanization, technology, globalization and a free flow of ideas from within and outside the country is brining about a dramatic shift in consumer tastes and preferences. As retailers, we not only have to acknowledge this change but also stay a step ahead of the evolution curve of Indian consumers.

Indian consumers, unlike the rest of people in the world, demand ideas and solutions that are uniquely Indian. The diversity and heterogeneity of our nation doesn't allow us the luxury of developing a standardized solution. At the same time, as Indian retailers, we are in a uniquely



advantageous position to understand and react proactively to the needs and aspirations of Indian consumers.

The economic, social and cultural diversity of Indian consumers forces marketers and retailers to view this mass of consumers not as one single market but as a 'mass of niches.' The language people speak, the religion they follow, the food they consume, the fabric they wear and the festivals they celebrate changes every few hundred kilometers. Logic and emotion, individual and social, poverty and affluence, capitalism and socialism, life and lifestyle, value and indulgence, and the past and the future simultaneously coexist in India. And all these paradoxes converge to make India what it is.

To the external world, the harmonious coexistence of seeming contradictions in is one of the most confusing aspects of the Indian consumer market. But to me it signifies our country's openness to change and its ability to add new dimensions without losing old ones. It opens up new and unique opportunities as well as brings forth challenges for marketers and retailers.

At the forefront of private consumption-led growth are retailers who cater to the consumption needs of the consumer. Over the next couple of years retailers will need to play a more inclusive and holistic role in building brands, shaping desires, creating aspirations and catalyzing further consumption. We are at an inflection point wherein the first phase of retailing is coming to a close.

Contrary to popular perception, the Indian consumer market continues to be significantly unbranded, especially in categories like food, apparel, home care and home products. Brands are a product of imagination. A brand is an idea and if translated properly, it can fire a customer's imagination. Therefore each brand needs to be developed on a fresh canvas. Yet, most of the new brands that have emerged in the last fifteen years seem to have been borrowed from the international market and often lack a real connection with India. There are very few brands that have been launched in the last two decades that were conceived in India. Therefore, there lies a significant opportunity to conceive and create new brands that cater to aspirations of the new generation of Indian consumers.

Being present closer to consumers, retailers have the inherent advantage in building or supporting brands. Increasingly in many categories, retailers will have the option to directly tie-up with manufacturers and develop their own brands. In certain categories like snacks, staples, tea and diary products, we have been able to develop a strong portfolio of brands by directly tying up with small manufacturers. At the same time, a large retail chain network allows brand owners to



collaborate with retailers. Over the next couple of years, one will notice an increasing collaboration between retailers and consumer goods companies in sharing consumer data and insights, exclusive packaging and product formulations for specific retail chains and joint promotion and marketing of certain brands.

While brands that are able to establish an emotional connect with Indian consumers will be able to boost consumption, what will catalyze it further is the availability of customized credit products provided by retailers within their stores. Till now, credit products have largely been made for very large ticket purchases like automobiles and home and cater to a very small segment of the population. Customer aspirations are increasing faster than their income and in order to capture the full consumption potential, we will need to build credit products customized for sections of the society yet untouched by existing credit products.

As retailers, we are now in a far better position to understand and cater to customized credit needs of our customers. In fact, we can draw some lessons from Latin American, especially Brazilian models wherein the largest retailers have built a substantial chunk of their business through integrating credit products in every product category. More often than not, these customized micro-credit products cater to the marginalized sections of the society. It is a proven fact that easy availability of such consumer credit acts as a catalyst towards driving better lifestyle and higher consumption.

The major trends in retailing that we envision may have little to do with the conventional form of retailing. However, in more ways than one each of these trends builds upon the platform that modern retail chains provide and at the same time boosts consumption within these retail chains.

The convergence of these catalysts – retail, brands and consumer credit– within a retail store can bring about a paradigm shift in modern retailing. As new entrants get into retail, the agenda for the next phase of retailing has already been set – it is no longer about buying and selling, the challenge is to catalyze consumption that will lead to economic growth.

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