

# **Indian consumers in 2020: A look into the future**

Euromonitor International

14 September 2009

A fast growing economy and a rising number of affluent consumers have pushed India into the league of most brand conscious countries globally. Many Indian consumers today are savvy shoppers who are educated, know their brands and are ready to spend more on premium lifestyle products and entertainment.

Indian consumers dream big and are going all out to translate their aspirations into reality, even if it means overspending and using credit. Will they remain so in the next decade? How is the economic crisis affecting them?

## INDIAN CONSUMERS TODAY

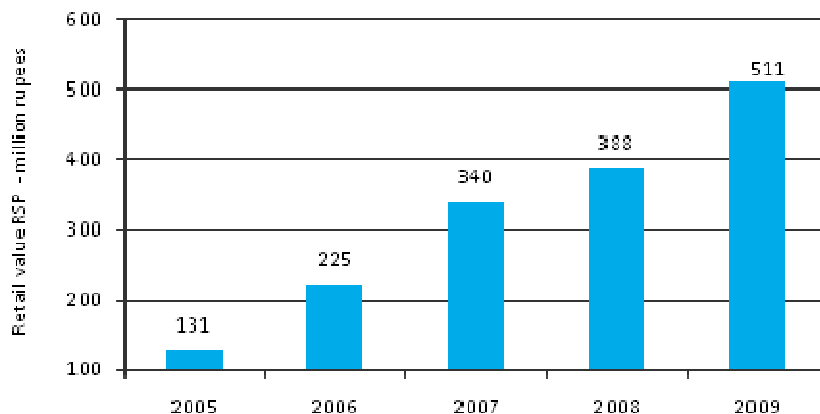
### Buying into a better life

A large fast-moving consumer goods shop in the Lajpat Nagar market, a sprawling middle-class shopping zone in the heart of New Delhi, was crammed with crowds of shoppers looking for good bargains on air-conditioners and refrigerators. The buyers, mostly middle-class families with double incomes, are willing to shell out more for air-conditioners, with the average lowest cut-off price being 13,000 rupees (US\$265) for a machine. "Our range of split air-conditioners is doing very well. It's primarily because we are projecting our new air-conditioners as lifestyle products rather than utility goods," commented V. Ramachandran, Sales and Marketing Director of LG India.

Economists attribute the trend to the process of evolution brought about by global competition, the proliferation of choices and growing disposable incomes in the hands of young Indians. In the last few years, consumers have been spending more on lifestyle categories like niche consumer durables, eating out, films and entertainment. "All of them have credit cards and the willingness to buy. Mall is the new culture. Today's consumer needs constant change and new products because they have a very short attention span, triggered by the remote control culture," noted Josy Paul, Chairman and Creative Head of BBDO India, a global advertising agency.

**Chart 1**      **Portable consumer electronics market sizes: 2005-2009**

Rupees (millions)



Source: Euromonitor International from trade sources/national statistics  
Note: Data for 2009 is forecast. Market sizes based on retail value RSP.

### Loyal to socially responsible brands

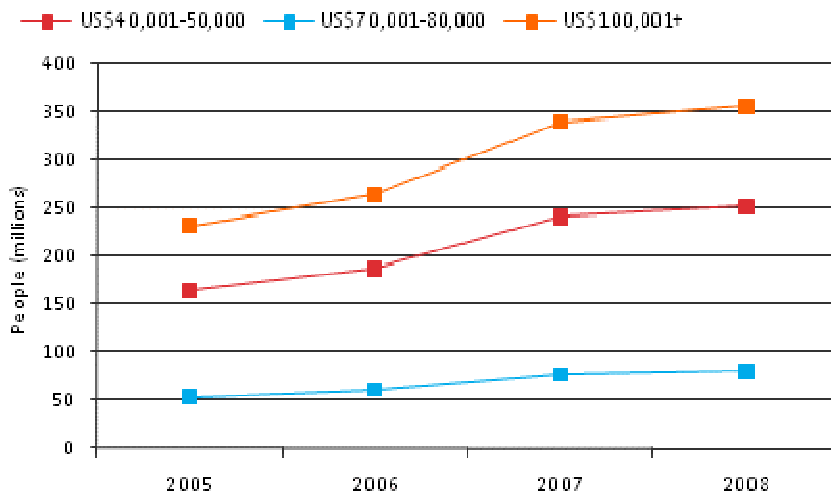
A study of consumers in India shows that despite the economic downturn, over 90% of them think it is important to purchase products and brands they perceive to be socially responsible. The study is part of a 10-market global study called 'good purpose' conducted by PR firm Edelman. "What we find particularly interesting in this study is that economic concerns are taking a distant place behind Indian consumers' demands that quality brands be produced by socially conscious companies," commented Alan VanderMolen, Edelman's Asia-Pacific President. "We believe this is driven by two factors. First, the obvious fallout from product safety issues in the region over the past 18 months; and second, an expanding middle class that now has the power to address social issues at home through purchase decisions."

### Rise of the middle class

The rapid expansion of the Indian middle class offers great opportunities for investors and businesses particularly those operating in the retail sector. Extrapolating from Euromonitor International's data, expenditure on basic household items will record more modest growth whilst out-of-home expenditure such as entertainment and healthcare will increase significantly. The middle class will become more tech savvy, and as young educated consumers enter the fray, the use of internet and mobile phones will extend to many more purposes.

**Chart 2 Population by income band at current prices: 2005-2008**

Millions



Source: Euromonitor International from trade sources/national statistics

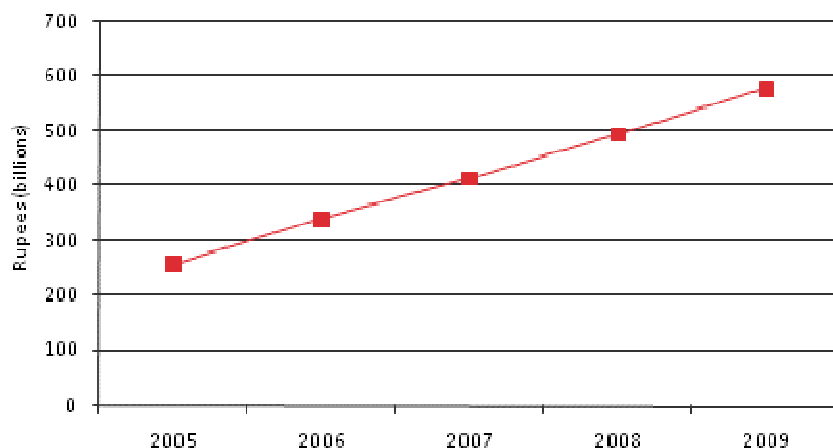
## EMERGING INDIAN CONSUMER TRENDS

### End of the dream

According to Goldman Sachs, Indian consumers' growing appetite for cars, computers and clothes during the past eight years accounted for nearly as much growth in global demand as the United States, and triggered huge demand for credit before the economic crisis. Total loans to consumers, including mortgages and unsecured loans such as credit cards, grew around 30% annually in the last three years, an expansion the central bank called "unprecedented." But now, in the face of the economic downturn and high interest rates, banks, companies and consumers are feeling the strain of rising debt. According to India's central bank data, consumer credit growth in August 2008 slowed to 17.4% from 21.4% the previous year. Housing loan growth slowed to 13.9% from 17% in the same period, while advances for consumer durables fell by 7.9%. Car sales, a major indicator of the economy's health, fell an annual 6.6% in October 2008, while ratings agency Crisil predicts that bad debts are expected to rise to 4% of advances this year. 26 year-old V. Rajiv, who recently bought an expensive watch he could hardly afford, aptly echoed the sentiments of a typical modern day Indian consumer, "The outstanding is so high now that I am hardly able to pay the minimum due."

**Chart 3 Credit card transactions: 2005-2009**

Rupees (billions)



Source: Euromonitor International from trade sources/national statistics

Note: Data for 2009 is forecast

## Canada as the country of choice for migration

With friendlier and more compatible immigration policies being mooted by Canada, the number of Indians wanting to migrate there is expected to increase. "People from India in general and Chennai in particular have been successful in migrating to Canada. Over 9,500 people from the metro have done it in the last 10 years," said B. S. Sandhu, Chairman and Managing Director of Worldwide Immigration Consultants. With the recently incorporated provisions in immigration policy, international students in Canada will now be able to get a work permit for up to three years without even a job offer available to them. "The conditions in Canada have also been considerably favourable for investors and businessmen who can invest a capital sum of up to 5 million rupees (US\$102,000) in any venture in that country," Sandhu added.

## Easy credit coming around to bite back

Until about two decades ago, a father would raise a loan from friends and family or take an advance from his retirement benefits to marry off a daughter or buy a house. But as the economy opened up, credit providers distributed loans indiscriminately with little care for the credit-worthiness of the debtors. It even became common to be accosted by credit card agents or offered a loan with virtually no demand for security. "If you produce your plane boarding pass, you might be able to obtain a credit card as you exit the airport terminal," said Manmohan Agrawal, Executive Director of Axis Bank. India has about 30 million credit cardholders, a number that has tripled over the past five years as private and foreign banks chose plastic to break into the Indian market. Indian consumers put US\$13.6 billion on their cards in 2008, more than three times the amount charged four years earlier. According to Crisil, consumer credit repayments that are overdue for three months or more formed about 7-9% of total loans outstanding in 2008. This figure is forecasted to hit 15% by the end of 2009.

## INDIAN CONSUMERS IN 2020

### The rich get richer

In contrast to the extreme poverty portrayed in films such as *Slumdog Millionaire*, India has a top tier of extremely rich consumers, who possess Western tastes but still demand local flavour. They have a penchant for fine living and are well-informed of world issues and trends. This group provides great opportunities in segments such as apparel, financial services, cars, telecoms and cosmetics and toiletries. The wealth of this group comes both from old money from the industrial dynasties and new money coming from entrepreneurship.

### The continuing rise of the middle class

India is likely to take over from China as a key driver of the explosive growth in the global middle class over the next decade with a sharp increase in its contribution. "India will take over where China is leaving off, becoming the driver of middle class creation over the next decade. Its contribution to growth in the middle class will increase sharply and is unlikely to peak even after 2020," a global economic paper released by Goldman Sachs global chief

economist Jim O' Neill stated. At present, China and India are important parts of the explosive growth in the global middle class, but they differ significantly as the transition to the middle class is occurring earlier and faster in China than in India as incomes have risen sharply. Alongside the rise in the share of incomes going to the middle, an ongoing decline in the extreme poor with a sharp reduction in poverty is most pronounced in India.

## **Luxury brands to remain a tough sell on local soil**

Despite its growing number of millionaires, there are considerable challenges faced by global luxury retailers. India lacks quality retail space, has high import duties on luxury goods, a cap on ownership in local units and excessive red tape and piracy. "For luxury in India, the path is bumpy and long," said Mohan Murjani, chairman of the Murjani Group which launched Gloria Vanderbilt jeans and Tommy Hilfiger globally, and have partners taking in such brands as Gucci, Calvin Klein and Jimmy Choo in India. "You need size, experience and patience for the long haul." Most brands have been forced to curtail their grand ambitions despite a robust economy in the past few years with Louis Vuitton only having four shops to show for its five years in the country, compared to 25 in China. In addition, high tariffs on imported goods can bump prices up by more than 25% compared to cities such as Dubai or Singapore. "Brands have to satisfy the consumer on the price point, the offering, the total experience. A small store in a corner of a hotel is not going to do the trick. Consumers will simply shop in Paris or Singapore," Murjani added, noting Indians still splashed out about US\$500 million on luxury brands abroad a year. While India's super-rich may seem better insulated from the financial crisis that has curbed the appetite for luxury goods elsewhere, they will also be harder to entice. "India has her own concept of time for absorbing change," said Neville Tuli, chairman of auction house Osian's in Mumbai. "It's not enough to just throw a nice party and talk about the glamour of your brand. It can take 10 years, maybe more to build something, and most companies don't want to wait 10 years."

**Note: For additional information, please refer to the Strategy Briefing entitled India: Growth Market for the Future.**