

## The Marketing Challenge In India

By Arvind Singhal, Technopak



India has been having a wonderful journey in the last 15 years. With Goldman Sachs now predicting that India could sustain over 8% GDP growth rate through 2020, this journey promises more excitement for many more years to come. However, for many marketers of consumer products in India, 2007 could be one of the most memorable one. Consumer demand for most goods and services continues to rise unabated, and as a result, most consumer goods manufacturing and marketing companies have posted superb financial results in the last 4 quarters.

Some of them have regained the confidence in their brands and their pricing power and as a result, many of them have begun to raise prices (straddling many product categories) by 5% to 20%. The official justification for doing so is that inflation has led to increases in the cost of various inputs though the reality could be a belief that with the upsurge in incomes, consumer demand is higher and that could support these price hikes.

As marketers, we would not be so bullish about the price insensitivity of the average Indian consumer. Let us start by putting in perspective the environment in which the Indian consumer product businesses are currently operating in and the impending impact of changes in this environment. These changes can be broadly segmented in four dimensions.

The first dimension is to do with changing demographics wherein the fact that the majority of India is very young (Over 50% or just over

550 Million individuals are younger than 25 years) implies that most of the current and near-future new customers are going to be first time consumers for most goods and services. There would be no “history” or “legacy” of a similar consumption in their households since their parents may not have ever been consumers of such products or services. This holds true for goods as diverse as automobiles, telecommunication products, consumer durables, and even personal grooming, and services such as beauty salons or cafes. Aspirations and desires of such new consumers are evolving and will undergo frequent changes in the coming years.



The second dimension is to do with the economic environment in which many of these new consumers are living now or will be living shortly and changes in their lifestyle. With emergence of many new, largely service industry oriented employment opportunities in urban India, and with rapid increase in such opportunities as new service sectors such as retail go pan-India, the typical middle-class India will move from single income household to multi-income household. This will certainly imply a marked increase in disposable income per household but at the same time, this will also bring in a significant change in the lifestyles of such households. Many more categories of consumption shall enter such consumers’ consideration set and as a result, there will be a tussle across categories for the share of such households’ spending. Aspirational / lifestyle based consumption needs are likely to come up stronger relative to more basic “survival” needs and hence, I would be very surprised if consumers will get any joy in spending more for “upgraded” variants of shampoo, soap, detergents, biscuits, honey, wheat flour, pickles, ketchup, and toothpaste when they concurrently desire to more frequently upgrade their cell phones, plan more number of vacations, eat out more frequently, and entertain at home more often implying rising expense on alcoholic beverages and snack foods just to list a few lifestyle

oriented expenditure categories that will see upsurge in consumption in the coming years.

The third dimension is that everyone is very bullish on India and hence almost all producers and marketers of consumer goods and services are investing heavily on increasing capacity. The impact may yet not be visible as the current capacity is chased by rising demand. However, this may not be the situation even 12 months later.

The fourth dimension is perhaps the most interesting one, and probably the most overlooked one by many branded goods marketers. Modern retail trade is now picking up rapid momentum. We regularly track planned investment in this sector and as per its most recent analysis, over US\$ 30 Billion of investment is likely to take place in modern retail over the next 4-5 years. Incidentally, about US\$ 20 Billion of this is expected from Indian businesses themselves. This investment excludes investment in retail real estate and is being carried out at a frantic pace in view of the fact that the current retail market of over US\$ 300 Billion (2006) is likely to touch US\$ 427 Billion by 2011 and US\$ 637 Billion by 2016. Hence, in the last 12 months alone, based on our estimates, additional "capacity" (in terms of additional retail shelf space) worth at least US\$ 4 Billion in annualized revenue terms has been created. By the end of 2007, another US\$ 7-8 Billion worth of (annualized) shelf space would have been created. Interestingly, this capacity is also expected to be created not only by current players such as Future Group, Shoppers Stop, Subhiksha, Trinethra, and others but also by newer and new players such as Reliance, AV Birla Group, Wal-Mart - Bharti, ITC, Godrej, Metro and others. Most of these retail players yet do not have the critical mass to introduce their own brands / labels and hence are stocking up or will be stocking up tens of millions of running feet of new shelf space with branded merchandise from current players. Hence, we believe that the increase in demand being seen by FMCG and other consumer goods companies in 2006 and beginning of 2007 could be largely accounted for by this filling-up of the newly laid modern trade pipeline and not mostly by increased consumption. While this pipeline's spread will dramatically increase in the coming years, beyond 2007 the stocking-up could be through retailers' own private brands which will then start putting up tremendous pressure on the national and regional branded goods marketers. By 2008, I

believe that India will see emergence of some extra-ordinarily powerful retailers' brands that will not only successfully compete with the manufacturers' brands but in many cases, supersede them. The situation is fundamentally different than what has happened in developed markets like the USA, UK, and others where the manufacturers' brands had several decades of head start in their relationship with consumers and hence could / can still compete effectively with the "private label" merchandise of modern retail chains.

There are no easy generic answers to this challenge for marketers other than an advice that most of the branded goods products in India should look at 2008 and beyond, and then go back to introspecting on the very basics of their business. Until they reinvent their USP and further hone their marketing and communication strategies, they should not risk annoying their consumers and play into the hands of the emerging large modern retailers by creating more price-performance gap between themselves and the retailers' own brands.

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Note:

Arvind Singhal's bullish views of the opportunities and challenges in the modern Indian retail landscape are echoed by Fitch, WPP's retail design agency. Fitch has a strong collaborative working alliance with Technopak, has recently set up a studio in Mumbai and is working with several of the major local retail groups. For more info email: [rodneyfitch@fitch.com](mailto:rodneyfitch@fitch.com)