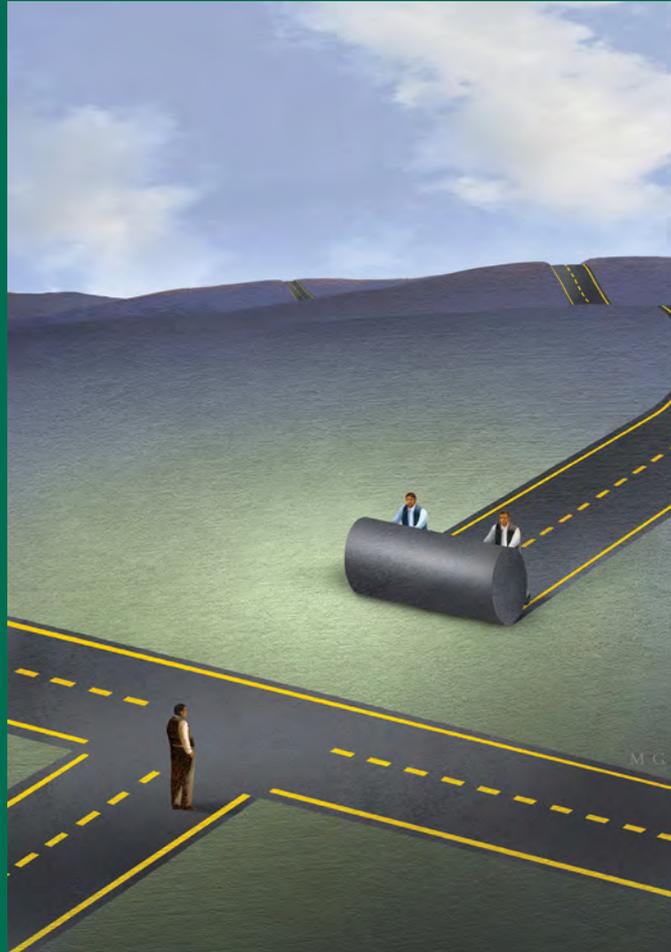


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THE BOSTON CONSULTING GROUP



Confederation of Indian Industry
Since 1895



The Tiger Roars

An In-Depth Analysis of
How a Billion Plus People Consume

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THE BOSTON CONSULTING GROUP

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organization, playing a proactive role in India's development process. Founded over 117 years ago, it is India's premier business association, with a direct membership of over 6600 organizations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 400 national and regional sectoral associations.

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CII has taken up the agenda of 'Business for Livelihood' for the year 2011-12. This converges the fundamental themes of spreading growth to disadvantaged sections of society, building skills for meeting emerging economic compulsions, and fostering a climate of good governance. In line with this, CII is placing increased focus on Affirmative Action, Skills Development and Governance during the year.

With 63 offices including 10 Centres of Excellence in India, and 7 overseas offices in Australia, China, France, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 223 counterpart organizations in 90 countries, CII serves as a reference point for Indian industry and the international business community.



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Since 1895

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How a Billion Plus People Consume

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February 2012

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Foreword

We are very happy to present this report from The Confederation of Indian Industry (CII) and The Boston Consulting Group (BCG). This report examines in detail the shape and size of consumption expenditure in India, and its expected evolution over the next decade. While India's robust consumption growth presents attractive opportunities for companies, its unique diversity and variety makes it challenging to capture these opportunities. Towards that end, this report presents a framework and approach on how to de-average the opportunity to better segment consumers and effectively understand their buying preferences.

It takes an in-depth look at how these consumer segments shop for key categories of food and groceries, consumer durables and apparel. This has been achieved through an extensive on-the-ground consumer research covering a broad cross-section of over 12,500 consumers across segments in India. This report highlights key trends — both in stated consumer preferences, as well as in the actual execution of the purchase decision — and the resulting implications for companies that sell to consumers in India.

Despite the current global economic environment, India continues to march along a robust growth path. With the recent regulatory changes, increasing consumption levels and changing consumer preferences, the FMCG and retail sectors are standing at the point of inflexion.

We look forward to your continued cooperation as we work together to bring about the next FMCG revolution in India and to catapult the retail industry along an even faster growth trajectory.

We would like to take this opportunity to thank all the people whose valuable contributions have gone into the making of this report.

Thomas Varghese
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Managing Director & Chief Executive Officer,
Aditya Birla Retail Limited

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At a Glance

India is a large and growing consumer market, but the expanse and diversity of the country make the shape of future growth difficult to predict. Companies can begin to capture this market only by understanding it.

The Many Faces of India

India has a billion plus consumers spanning all income segments. The income pyramid is real but does only a partial job of explaining consumer attitude and behaviour.

This report provides the definitive view of the income segmentation and more importantly uses other parameters of location, education and occupation to define the seven segments of India.

- ◇ **Professional Affluent (Two percent of households):** With an annual household income above US\$ 18,500, these consumers are well educated and work as executives, managers or are self employed professionals.
- ◇ **Traditional Affluent (Four percent of households):** With annual household income levels similar to the Professional Affluent, these consumers are less educated and typically self employed. They are more value conscious and less comfortable with credit than the Professional Affluent.
- ◇ **Urban Aspirers (Eight percent of households):** With an annual household income between US\$ 7,400 and US\$ 18,500, these consumers are educated and have mid-sized businesses or stable jobs. They live in urban cities and have high aspirations for their lifestyle.

- ◇ **Rural Aspirers (Six percent of households):** With income levels, education and occupation similar to Urban Aspirers, these consumers live in rural India. They consume less than their urban counterparts and are comparatively less aspirational.
- ◇ **Large Town Next Billion (Six percent of households):** With incomes between US\$ 3,300 and US\$ 7,400, these consumers typically have basic education levels and have small businesses or low paying jobs. Their income levels allow them to sustain a basic lifestyle. They live in towns and cities with a population greater than 500,000.
- ◇ **Small Town and Rural Next Billion (Twenty Four percent of households):** These consumers are similar to the Large Town Next Billion segment, but live in smaller cities & towns and in rural India.
- ◇ **Strugglers (Fifty percent of households):** With an annual income less than US\$ 3,300, typically illiterate with limited education, these consumers have jobs that are manual labour based with very low income, generally daily wage.

The Shape and Size of Consumption in India

The Indian consumer market is poised to grow 3.6 times between 2010 and 2020, faster than most other emerging markets.

Rising household income, urbanization, the decline in the traditional joint-family structure, and the coming of age of “Gen I” are key contributors to the growth.

Estimated at US\$ 991 billion in 2010, total consumption expenditure is expected to grow to nearly US\$ 3.6 trillion in 2020. Food, housing & consumer durables and transport & communication are expected to be the Top 3 categories, accounting for 65 percent of consumption in 2020. The Professional Affluent are expected to dominate consumption in 2020, accounting for 26 percent of total consumption expenditure, up from 16 percent in 2010. By contrast, spending by struggler households will decline from 26 percent in 2010 to 11 percent in 2020.

Shopping Behaviour

It is important to understand not only the way consumers think or state their preferences, but also how they actually consume and shop. This report examines in detail the shopping behaviour of consumers across segments - based on an extensive on-the-ground consumer research with over 12,500 respondents.

Key themes which have far reaching implications for companies looking to capture the large consumption opportunity are different across categories.

Food and Groceries

- ◇ Trading up tendency increases with rising income levels, especially in food
- ◇ Purchase frequency drives format preference, not product freshness
- ◇ Shopping is often a group activity, not limited to only the housewife
- ◇ Brands are critical till the consideration stage, but reduce in importance for actual purchase
- ◇ The last three feet at the store is the moment of truth: Key purchase decisions are taken at the store

Consumer Durables

- ◇ Desire to keep pace with changing lifestyles is the key trigger for purchase decision
- ◇ Brand pre-decision varies across product categories
- ◇ Purchase is a highly planned and researched decision, the primary objective of the store visit is to execute the purchase
- ◇ Organized retail is preferred for more expensive product categories
- ◇ Online shopping still at a nascent stage — lack of awareness is the key barrier

Apparel

- ◇ Apparel shopping is driven by occasion, rather than functional need
- ◇ Fabric quality and brand image are key criteria in driving consumer choice
- ◇ Large opportunity for private / store labels
- ◇ Stores need to tailor value proposition to focus on specific consumer segments

Introduction

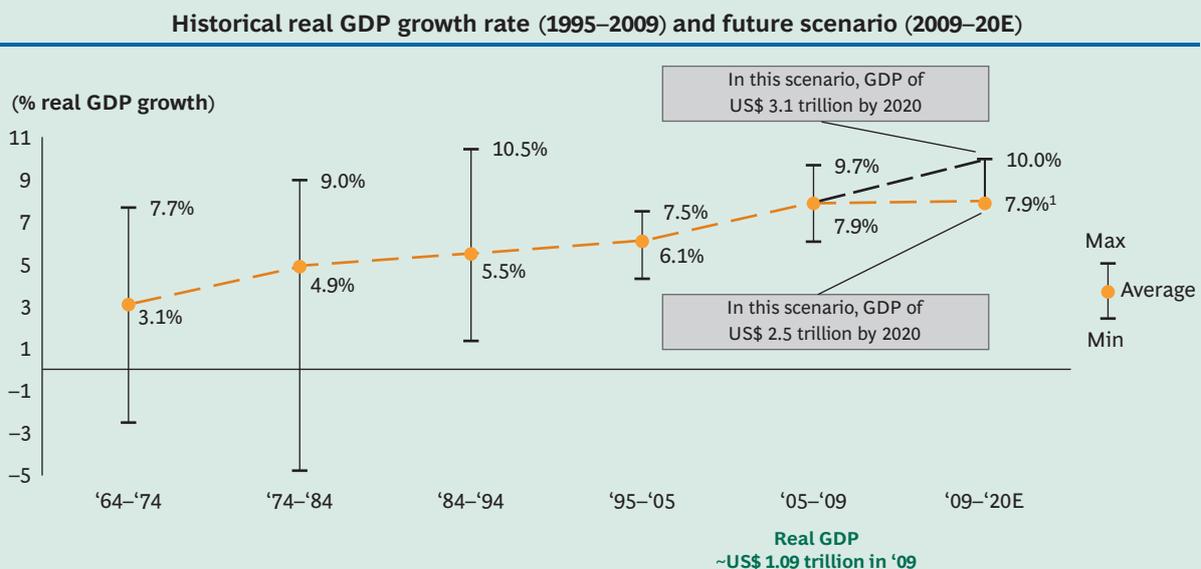
The India growth story is real, and is here to stay. India moved from being the tenth largest economy in the world in 1991 to the fourth largest in 2010 in terms of Purchasing Power Parity, next only to the United States, China and Japan. In 2011–12, India’s GDP is expected to grow at around seven percent, making it one of the fastest growing major economies, despite the ongoing challenges in rest of the world.

If one looks at India’s GDP growth trajectory over the past 50 years, two interesting patterns emerge. As shown in

Exhibit 1a, the rate of change of India’s GDP growth has increased in each successive decade, while the variability of this growth has reduced. Therefore, India is on a faster and more certain growth trajectory going forward.

The economic liberalization in 1991 marked a turning point in India. In the last two decades, rising income levels driven by economic liberalization have given rise to the famous Indian middle class. Although many governments have changed over the last two decades, all have been committed to opening India to greater competition and outside influence.

Exhibit 1a. India on robust GDP growth path



Source: World Bank; IMF, World economic report; EIU; BCG Analysis.

1. EIU forecasts Indian GDP growth of 7.0% between 2009 and 2020 and 7.1% between 2000 and 2020. Actual growth between 2005 and 2009 was 7.9%.

Victor Hugo’s comment, “All the forces in the world are not so powerful as an idea whose time has come”, accurately captures India’s growth impetus.

The opening up and expansion of the economy, rising income levels and changing consumer beliefs and behaviours have led to an increase in consumption. This represents a tremendous opportunity for all companies that sell to consumers in India.

But, the opportunity will not necessarily be easy to unlock. Many companies have found it difficult to find success in India.

We believe the reason for that is — there is no one India. India is a tremendously diverse country, with 23 official languages, around 100 unofficial languages, 1,600 dialects and 8 major religions in a land mass of over 3.2 million square kilometres. Therefore, in essence, there are many Indias. Recognizing this and understanding that there are many Indias is critical to succeed in India.

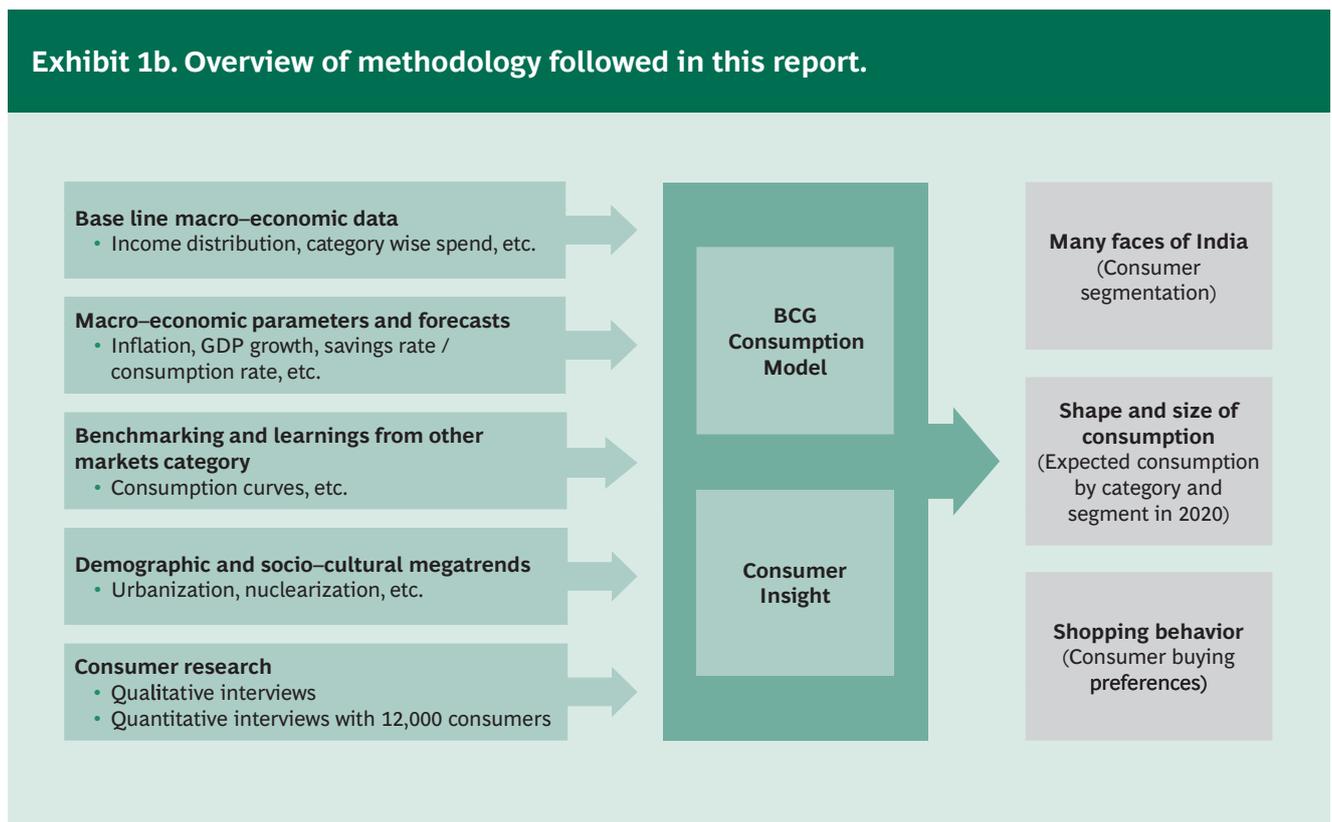
It is not easy to capture and categorize this diversity. The classical approach, used by most companies, involves

segmenting consumers by income. While this provides a starting point, many times it remains just that — a starting point. Segmentation on the basis of income alone does not fully explain India’s diversity. Consumers’ buying preferences are impacted not only by their income, but also by where they live, their education and occupation, their exposure to the world, the languages they speak, etc.

It is also important to understand not only the way consumers think or state their preferences, but also how they actually consume and shop. This is critical because consumers sometimes say one thing, but often act differently from their stated preferences.

So, companies selling to Indian consumers need to answer many questions: How to segment consumers? What are the sizes of these segments? What do people consume today? How do buying preferences vary across segments? How is this expected to evolve in the future? How do people shop today?

This report aims at addressing these questions.



The Many Faces of India

Income is frequently used by companies to segment consumers. There are different estimates of India's income pyramid, income growth and the changing distribution pattern. As consumers sometimes tend to understate household income, one finds various estimates, shapes and sizes of the Indian income pyramid. In this report, we have triangulated the various estimates across different sources, supplemented with household durable ownership, spend patterns with secondary data as well as primary research to come with a comprehensive view of the Indian income pyramid. We find that there are four key segments:

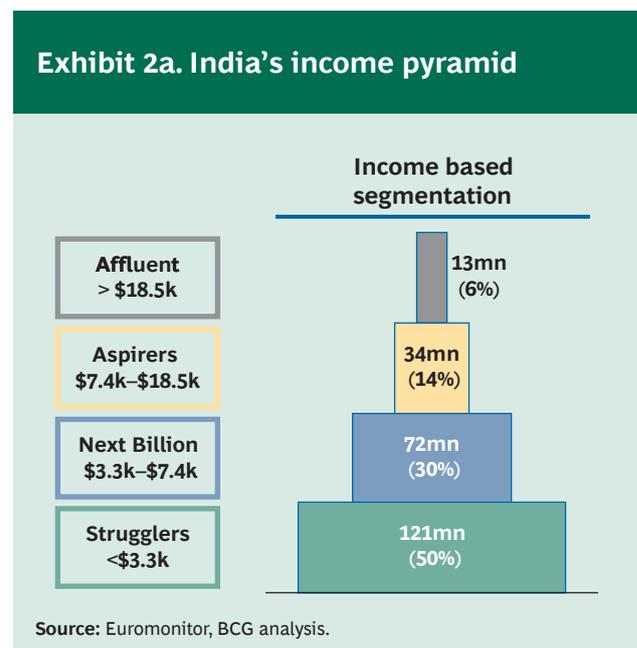
- ◆ The '**Affluent**' have annual household income above US\$ 18,500. These consumers are typically well educated, have mid to large businesses or good jobs with sufficient income to allow significant indulgence. This segment constitutes six percent of households in India.
- ◆ The '**Aspirers**' have annual household income between US\$ 7,400 and US\$ 18,500. These consumers are educated, have mid-sized businesses or stable jobs with income sufficient to live comfortably as well as indulge a little. This segment constitutes 14 percent of households in India.
- ◆ The '**Next Billion**' have household income between US\$ 3,300 and US\$ 7,400. Typically, they have basic education and have small businesses or hold low paying jobs. Their income levels allow them to sustain a basic lifestyle. This segment constitutes 30 percent of households in India.
- ◆ Finally, '**Strugglers**' have household income of less than US\$ 3,300. Typically illiterate with limited education, these consumers have jobs that are manual labour based with very low income, generally daily wage. This

is the largest segment today, constituting nearly 50 percent of households in India.

This segmentation of households in India is illustrated in Exhibit 2a. However, segmentation on the basis of income alone cannot explain differences in consumer preferences, attitude and buying behaviour in a country as diverse as India. Variation within income groups can be as large as it is across them. For example, within affluent consumers, educated professionals are more comfortable with credit and tend to indulge more than businessmen, who are more conservative.

Therefore, these broad segments require refinement. We have found that, in addition to income, companies need to consider location, education and occupation as key parameters to effectively segment consumers.

Exhibit 2a. India's income pyramid



Interestingly enough, the most important parameter varies across income levels. Accordingly, we have identified seven segments which better reflect purchasing patterns, attitudes and behaviour of consumers in India. These segments are illustrated in Exhibit 2b.

We believe that describing the lives, hopes and behaviour of these segments paints a more compelling picture of their lives than mere statistics. We layout pen portraits of these segments to bring to life the many faces of India. Refer Pen Portraits 1, 2 and 3.

Professional and Traditional Affluent

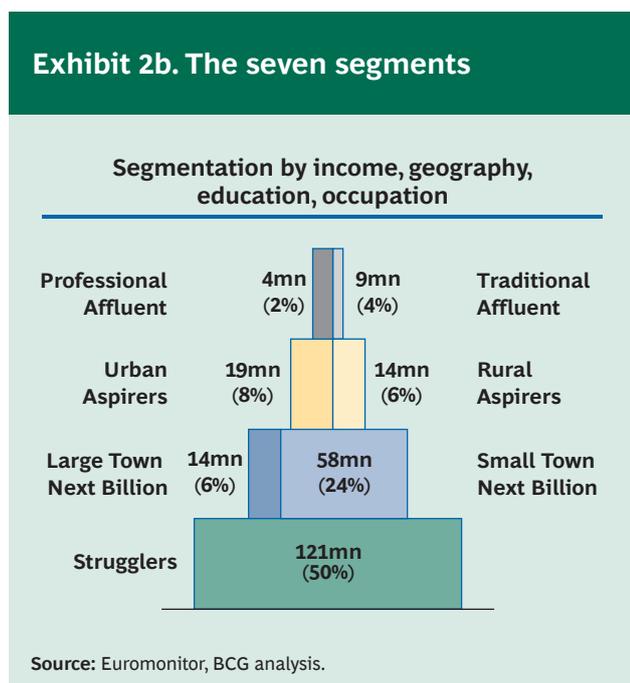
The affluent have an annual household income of US\$ 18,500 and above. Today, the affluent class is larger in size than the population of Canada. Among affluent households, education and occupation help define consumption patterns and attitudes, creating two distinct segments: professionals and traditional. The Professional Affluent have graduated from college and work as executives, managers, or are self employed professionals like CAs or doctors. They are more likely to rely on credit and to be internet-savvy than the Traditional Affluent. About 73 percent of Professional Affluent households have an outstanding loan and 60 percent have internet access, compared with 50 percent and 34 percent, respectively, among the Traditional Affluent.

Urban and Rural Aspirers

The aspirer class has an annual household income greater than US\$ 7,400 and less than US\$ 18,500. The affluent and aspirer classes collectively form the middle and upper classes in more common parlance, but the dividing line is different. Within the aspirer class, location is the great divide, with urban and rural emerging as the key segments. Members of the urban aspirer class, for example, have higher ownership of basic durable goods and exhibit greater optimism about the future than their rural counterparts. Two-thirds of the urban aspirer class owns a basic television, single-door refrigerator, or liquefied petroleum gas stove, while less than one-half of rural households do. Two-thirds also believe their lifestyle will be better in two years than it is now, while 53 percent of members of the rural aspirer class share that sentiment.

Large-Town and Small-Town & Rural Next Billion

Households in the Next Billion — a group that The Boston Consulting Group has identified as an emerging force and has been closely tracking for more than five years — have incomes between US\$ 3,300 and US\$ 7,400. Within the Next Billion, there are significant differences in behaviour between the large town and Small Town and Rural segments. (A population of 500,000 separates the large town segment from the Small Town and Rural segment.) Large Town Next Billion households, for example, exhibit greater financial sophistication, with 80 percent of them having at least one bank account, compared with 63 percent of the Small Town and Rural segment. Also, only six percent of their total savings are in cash compared with 18 percent for the Small Town and Rural Next Billion.



Strugglers

This group is the bottom segment. These households, which earn less than US\$ 3,300 annually, have limited part of their income left for discretionary spending after meeting the necessities. Location does not play a large role in the spending patterns of this segment.

This segmentation helps reveal many insights about the consumer market. Also, in the future, the size and spending of these segments will shift significantly, especially at the top and the bottom. These are explored in the following chapters.

Pen Portrait 1. The Affluents



Professional Affluent

Satisfied and Occasionally Indulgent



Traditional Affluent

Conservative and Future Oriented

Household	Husband, wife and son, ages 35 and 32 and 6	Husband, wife, daughter and husband's mother, ages 39, 37, 14 and 62
Occupation	Husband is a senior sales manager at a leading paint company; wife works in the administration department of a trading company	Husband is a trader of iron and steel rods; wife is a homemaker
Home	Own two-bedroom apartment in Mumbai	Own three-bedroom apartment in Mumbai
Annual Household Income	US\$ 40,000	US\$ 35,000 to US\$ 40,000
Spending as Share of Income	50 to 60 percent	45 to 50 percent
Household Budget		
◇ Food	20 percent	20 percent
◇ Education and leisure	20 to 25 percent	15 to 20 percent
◇ Clothing	10 to 15 percent	10 to 15 percent
◇ Trans. and comm. ¹	10 to 15 percent	10 to 15 percent
◇ Housing	20 percent	10 to 15 percent
◇ Health	5 percent	5 to 10 percent
◇ Other ²	15 to 20 percent	10 to 15 percent
Favorite Brands	Body Shop and Adidas shower products, Surf Excel, Lizol, Olay cream, and Oreo, Good Day biscuits	Cinthol, Himalaya, and Pears soap, Rin, Amway cleaner, Olay face cream, and Pickwick and Britannia biscuits
Favorite Grocer	Big Bazaar, Sahakari Bhandaar, Reliance Fresh	DMart for monthly shopping and local shops for quick purchases
Profile Highlights	<ul style="list-style-type: none"> • The husband is comfortable taking loans and the couple regularly uses credit cards • They have investments in mutual funds, stocks, land, gold, and insurance policies for their children • The couple likes to indulge and purchase luxury brands; They have a vacation home and take at least one overseas trip yearly • They own a wide range of branded durables, ranging from televisions to coffee makers and vacuum cleaners 	<ul style="list-style-type: none"> • The family owns two houses, without availing a mortgage. The couple rarely use credit cards • They have investments in gold, which the husband considers to be safer than other alternatives • The husband does not like to spend money on expensive brands for clothes and personal care. His wife, likes to buy some expensive brands • Most of their vacations have been in India • The family owns numerous durables such as a television, microwave etc.

Source: BCG interviews.

¹Transport and Communication

²Including loan payments.

Pen Portrait 2. The Aspirers



Urban Aspirer Class

Smart Spending, Trading Up



Rural Aspirer Class

High Aspirations, Cautious Spending

Household	Husband, wife and two sons, ages 39, 30, 11 and 9	Husband, wife and three sons, ages 40,37, 14, 12 and 11
Occupation	Husband is a high-school teacher; wife is a homemaker	Husband is a wholesaler of staples in the village; wife is a high-school teacher
Home	Two-bedroom apartment in Ghaziabad, Uttar Pradesh	Own three-bedroom house in Barabanki, Uttar Pradesh
Annual Household Income	US\$ 8,500 to US\$ 9,000	US\$ 8,500
Spending as Share of Income	70 to 80 percent	75 to 80 percent
Household Budget		
◇ Food	30 to 35 percent	30 to 35 percent
◇ Education and leisure	15 to 20 percent	10 to 15 percent
◇ Clothing	10 to 15 percent	5 to 10 percent
◇ Trans. and comm.¹	10 to 15 percent	10 to 15 percent
◇ Housing	10 to 15 percent	10 percent
◇ Health	5 percent	5 percent
◇ Other²	10 to 15 percent	5 to 10 percent
Favorite Brands	Aashirwad flour, Dove and Lifebuoy soap, Tide and Surf Excel, Domex floor cleaner, and Garnier cream	Pears Soap, Rin and Wheel, Lakme cream, and Britannia Cream and Marigold biscuits
Favorite Grocer	Local shops	Local shops
Profile Highlights	<ul style="list-style-type: none"> • The couple dreams to have their own house and car • The wife trades up and trades down within categories — buys branded clothing for her children but not for herself or her husband • The husband uses the internet to pay bills, renew life insurance policies, and conduct banking transactions • The family takes five trips a year with friends, within India • Their home is comfortably furnished with durables such as a television, refrigerator, air conditioner etc. from large brands 	<ul style="list-style-type: none"> • The couple is cautious about spending to fund their future dreams • They have been saving money to renovate their house and buy durables, rather than taking a loan • The husband prefers to visit a bank branch for basic transactions rather than consider mobile banking • The family has insurance policies for their children, modest savings, an inherited piece of land, and gold and silver • They often travel within India to visit relatives or attend family functions • They own basic durables such as a television, refrigerator, and mobile phone

Source: BCG interviews.

¹Transport and Communication

²Including loan payments.

Pen Portrait 3. The Next Billion



Large Town Next Billion

Upwardly mobile, Selectively Trading Up



Small Town Next Billion

Dreaming big

	Large Town Next Billion	Small Town Next Billion
Household	Husband, wife, daughter and son, ages 41, 39, 18 and 15	Husband, wife and two daughters, ages 30, 28, 10 and 8
Occupation	Husband is a supervisor at a manufacturing company; wife is a homemaker	Husband runs a canteen at Airforce office; wife is a teacher in the local school
Home	Own two-bedroom apartment in Ghaziabad, Uttar Pradesh	Own two-bedroom house in Bhauli, near Lucknow, Uttar Pradesh
Annual Household Income	US\$ 4,000	US\$ 3,500 to US\$ 4,000
Spending as Share of Income	80 to 90 percent	85 to 90 percent
Household Budget		
◇ Food	40 to 45 percent	40 to 45 percent
◇ Education and leisure	10 to 15 percent	10 to 15 percent
◇ Clothing	5 to 10 percent	5 to 10 percent
◇ Trans. and comm. ¹	5 to 10 percent	5 to 10 percent
◇ Housing	10 to 15 percent	10 percent
◇ Health	5 percent	5 percent
◇ Other ²	15 to 20 percent	15 to 20 percent
Favorite Brands	Shaktibhog flour, Rin / Tide, Local floor cleaner, Fair and Lovely cream, Bakery / Parle G biscuits	Loose staples, Lux / Santoor soap, Wheel detergent, Local floor cleaner, Fair and Lovely cream, Parle G biscuits
Favorite Grocer	Local Shopkeeper	Local Shopkeeper
Profile Highlights	<ul style="list-style-type: none"> • The couple struggled hard during their childhood, but want their children to have very comfortable lives • The couple strictly control their personal spends and sacrifice their wants for needs of children • They invest their money in LIC policy, bank deposits and chit funds • They have a loan for their home. They want to buy a car, but don't want to take a loan for things which are not necessary • The family owns basic durables such as TV, Refrigerator, Washing Machine etc. 	<ul style="list-style-type: none"> • The husband dreams big for his family and wants both his daughters to be engineers • He wants to buy new electronic items like a washing machine and a mixer grinder • He feels extremely uncomfortable taking a loan, and strictly controls all discretionary spending • They have a savings account and an LIC policy • The family owns only the basic durables such as TV, Refrigerator, Mixer Grinder and mobile phone

Source: BCG interviews.

¹Transport and Communication

²Including loan payments.



The Shape and Size of Consumption in India

India's robust economic growth, powered by strong fundamentals, will drive an increase in consumption expenditure over the next ten years. The growth in consumer spending is grounded in the interplay of four powerful socioeconomic and demographic forces.

Household Income: The most notable force is average household income, which is set to rise nearly 3 times between 2010 and 2020. India's income pyramid has typically had a wide base of 'struggler' households and increasingly smaller layers as income rises. This pyramid is quickly becoming a diamond, as household incomes grow. More than one-third of the population is likely to reach the 'aspirer' class or wealthier by 2020, compared with 20 percent in 2010 and 9 percent in 2000. At the same time, the share of households classified as Strugglers will fall from about 50 percent in 2010 to 28 percent by 2020.

Urbanization: In 2010, 31 percent of India's population lived in cities. By 2020, that percentage will rise to 35 percent. As people move from rural areas to cities, they tend to both increase their purchases as well as spend on different items. Urban dwellers have better access to goods and are exposed to greater consumerism. For example, 80 percent of urban households own a television, while only 39 percent of rural households do, and 25 percent of urban residents consume packaged instant noodles, compared with just 3 percent among rural residents.

Nuclear Families: Third, households are becoming less traditional and spending more per capita, as young people leave the flock. The share of 'nuclear households' rose from 61 percent in 2006 to 66 percent in 2010. The

per capita spending of nuclear families is between 20 and 50 percent higher than it is for traditional joint families in the same household income group. While per capita spending on food and health is comparable in nuclear and joint families, nuclear families spend much more on clothing, housing, education, and leisure activities. In our research, we met several joint families that buy the lowest common denominator for widely used household products and avoid large price variations for products that are individually consumed, such as toys for children or cosmetics and apparel for adults.

Gen I: As they hit their prime consumption years, this generation of Indian spenders will reorient the consumer market as dramatically and as deeply as Baby Boomers, who have altered U.S. consumption patterns for the past five decades. Members of Gen I were in their early teens or younger at the time of economic liberalization, so they have witnessed firsthand the opening of markets, the influx of foreign brands, and the creation of wealth. They have different beliefs and have made different choices from their parents. Members of Gen I believe in living in the present and have a higher propensity to spend. By 2020, 75 percent of the Indian population and 60 percent of primary wage earners of households will be Gen I. The "I" in Gen I stands for India, Independence, and Individuality.

These fundamental forces will drive explosive consumption growth over the next decade — A baby born in India in 2009 is expected to consume 13x more over his or her lifetime than one born in 1960 (as shown in Exhibit 3a).

Companies need to understand not only the size, but also the shape of the opportunity to win in India.

Exhibit 3a. Lifetime consumption growth comparison in India

Consumption of a child in India		
	Born in 1960	Born in 2009
Life expectancy (years)	42	64
Per capita consumption at birth (US \$)	241	802
Per capita consumption at death (US \$)	531	6,151
Lifetime consumption (US \$)	14,645	184,556

Source: World Bank, United Nations data set, UN population division, Euromonitor, Economist Intelligence Unit, BCG analysis
Note: All figures are in constant 2010 US dollars
Key assumptions: Population growth flattens after 2050, real annual GDP growth is 3% after 2020

Consumption Basket: What India Spends On

To understand the shape, size and potential evolution of consumption in India, it is important to look at the consumption basket through four lenses:

- ◇ By category
- ◇ Across markets
- ◇ By consumer segment
- ◇ For the future

Consumption by category

Food, housing and transport are the Top 3 consumption categories in India, accounting for close to 65 percent of total consumption expenditure. Education & leisure, apparel, consumer durables, communication and health are other major categories, accounting for about 25 percent of India’s consumption basket.

Consumption across markets

If one looks at India’s consumption basket today and compares it with that of other markets, some interesting patterns emerge. At an aggregate level, it indicates how

change in income leads to change in consumption patterns.

Food is the largest consumption category, accounting for 31 percent of what India spends on today. In comparison, food constitutes 25 percent of the consumption basket in China. This is significantly higher than developed markets as well as other emerging markets. For example, food accounts for 16–17 percent of consumer spend in Western Europe and Brazil, and 10 percent in the United States.

In contrast, developed markets spend significantly more on housing. This is the largest category in the United States and Western Europe, constituting 20 and 23 percent of total consumption expenditure respectively. Housing is the largest consumption category in Brazil as well. In comparison, housing accounts for 14–15 percent of the consumption basket in both India and China.

Transport is the third largest consumption category in India today, accounting for 18 percent of total consumption expenditure. This is higher than other markets. As a percentage of the total consumption basket, consumers in the United States and China spend 50 and 65 percent lower than those in India on this category.

Consumption expenditure in India on consumer durables, apparel and health is at similar levels to other markets.

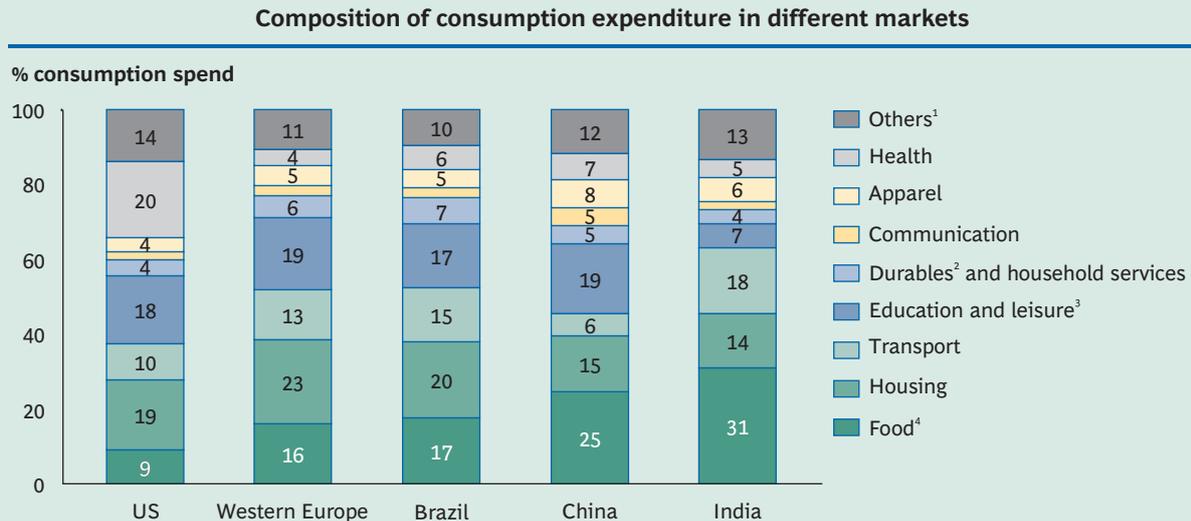
Lastly, consumers in India spend significantly less than other markets do on education & leisure. This category accounts for 7 percent of consumption expenditure in India, but constitutes 17–19 percent of the consumption basket across the United States, Western Europe, China and Brazil. These comparisons are illustrated in Exhibit 3b .

Consumption by consumer segment

Within India, the break-up of consumption expenditure varies across the seven consumer segments.

The professional and Traditional Affluent segments, representing 6 percent of households in India, account for 24 percent of overall consumption. Small town Next Billion consumers and Strugglers, representing 24 percent and 50 percent of households respectively, account for similar consumption levels (as shown in Exhibit 3c).

Exhibit 3b. Significant variation in consumption basket across markets



Source: Euromonitor, BCG analysis.

1. Others include: Personal care, baby care, EMI, loan payment, Holidays, social gatherings

2. Durables include household appliances, furnitures, furnishings, utensils, hardware etc.

3. Education and Leisure includes spend on: internet, entertainment (picnic, eating out, etc), children education

4. Food includes spend on alcoholic beverages and tobacco (excludes food sold by catering services such as restaurants, hotels, kiosks, etc)

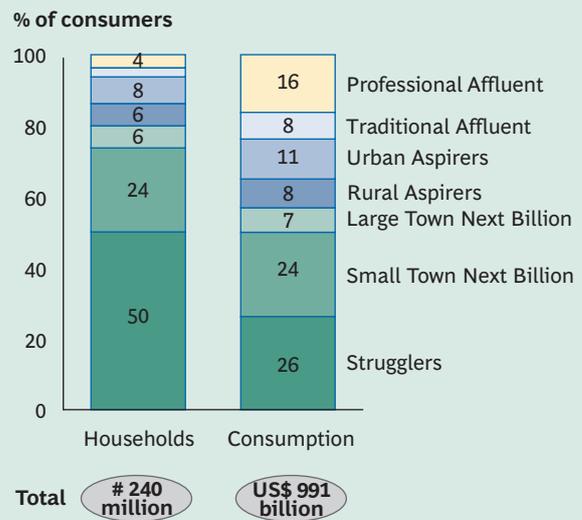
It is interesting to note that the consumption basket is similar across consumer segments — food, housing & consumer durables and transport & communication are the Top 3 categories in the consumption basket across segments. However, there are differences in the relative category spend across consumer segments. Not surprisingly, the relative spend on food decreases with rising income levels.

Affluent consumers spend more on transport & communication than on food; and their spend on housing & consumer durables is comparable to that on food. In contrast, food is the largest consumption category for all other segments, accounting for over 40 percent of consumption expenditure for Strugglers.

In terms of relative spend in the consumption basket, affluent consumers also spend 1.5–2x more than other segments on apparel. It is interesting to note that relative spend on education & leisure and health is similar across segments, regardless of income, location, education or occupation. Therefore, as income levels rise, consumers increase spending on discretionary items, with the basic necessities having been already taken care of.

Exhibit 3c. Current consumption expenditure across the seven segments

Split of household and consumption expenditure by consumer segment



Source: Euromonitor, BCG analysis.

Shape and size of consumption across the seven segments

Current consumption expenditure varies across the seven consumer segments in India.

As illustrated in Exhibit 3d,

- ◇ Spend on food, as a percentage of the overall consumption basket, decreases with rising income levels
- ◇ Food is the largest consumption category for the aspirers, Next Billion and Strugglers, accounting for 30–40 percent of the total expenditure. Affluent consumers spend more on transport and communication, and similar levels on housing and consumer durables.
- ◇ Percentage spend on housing and consumer durables is similar across all consumer segments, accounting for 16–20 percent of the overall consumption basket.

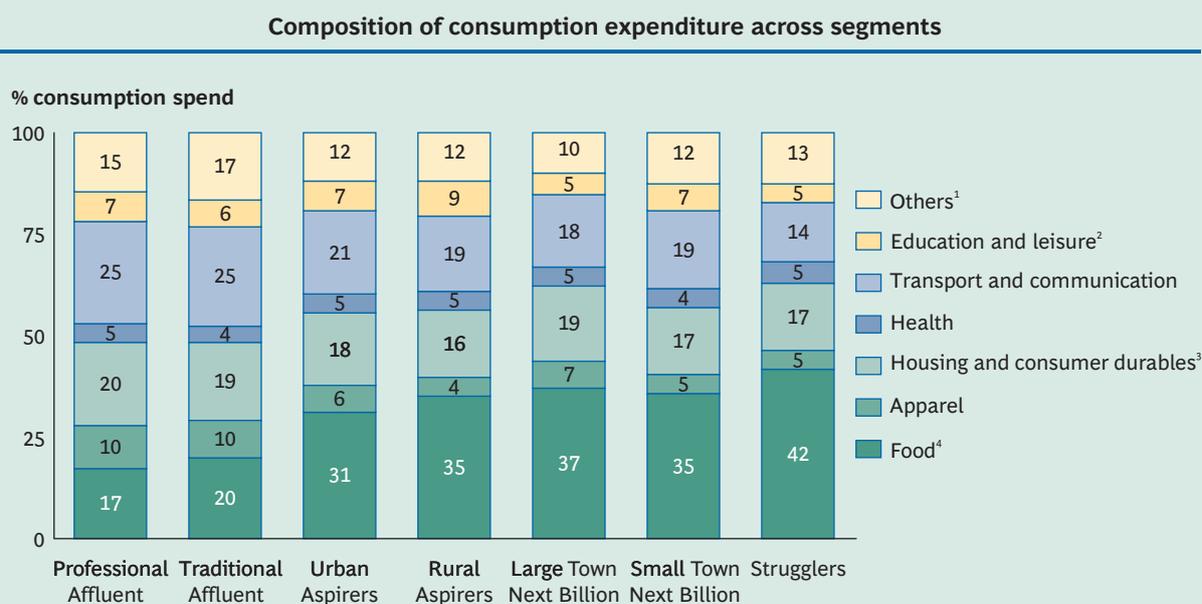
◇ Spend on transport and communication is inversely correlated to food, increasing with rising income levels.

◇ Apparel constitutes 4–7 percent of the consumption basket for aspirers, Next Billion and Strugglers. Affluent consumers tend to spend twice as much, in percentage terms.

◇ Percentage spend on health and education & leisure is similar across consumer segments.

It is important to note that — while the percentage spend is similar for many categories, the absolute amount spent is linked to disposable income levels, and therefore will be different across consumer segments.

Exhibit 3d. Current consumption basket across the seven segments



Source: BCG India consumer survey 2010, BCG analysis.

Note: Data represented for calendar year 2010

1. Others includes spend on personal care, baby care, EMI, loan payment, holidays, social gatherings

2. Education and leisure includes spend on internet, entertainment (picnic, eating out, etc.), children education

3. Housing and consumer durables includes spend on utilities, homecare products, servant salaries, consumer durables, home renovation, rent

4. Food includes spend on alcoholic beverages and tobacco (excludes food sold by catering services such as restaurants, hotels, kiosks, etc.)

The Mughals and the Emperors

Just as the last decade was about the growth in China's consumption, India is well poised to take the centre stage in the next decade.

Over 2000–2010, China's consumption grew 3.7x compared to 3.3x in India. We believe that India's consumer growth trajectory is similar to China, with a 7–10 year lag.

For example, there is a seven year lag between India and China in key macroeconomic indicators such as GDP per capita and private consumption (as shown in Exhibit 3e).

As illustrated in exhibit 3f, household consumption of FMCG products and consumer durables in India lags China by ten years.

Therefore, a closer look at China's consumption patterns today will give an insight into India's likely evolution in 2020.

Exhibit 3e. India lags China by 6–7 years across key macroeconomic parameters

Key macro-economic indicators suggest a 6–7 year lag between India and China

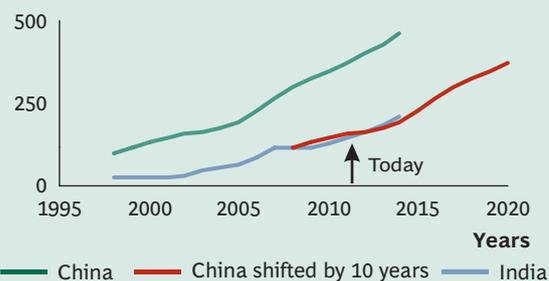
	India (2010)	China (2004)	China (2010)
GDP per head (US\$ at PPP)	3,582	3,598	7,599
Personal disposable income (US\$ / head)	1,163	871	2,436
Healthcare spending (US\$ / head)	39	39	102
Private consumption (US\$ / head)	843	608	1,471
Mobile subscribers (million)	752	335	859

Source: World Bank, Euromonitor.

Exhibit 3f. India's consumption lags China by 10 years

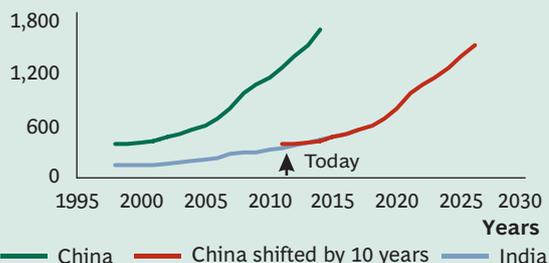
India consumer durables¹ sales per household lags China sales by ~10 years

US\$ consumer durables sales / household



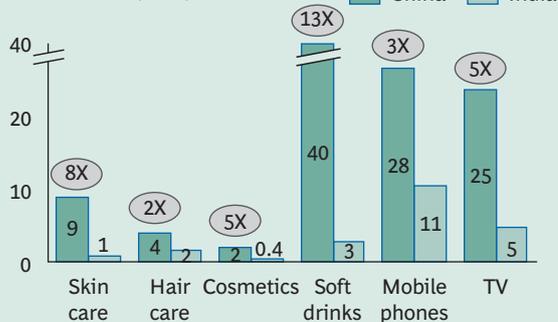
India FMCG² sales per household lags China sales by ~10 years

US\$ FMCG sales / household



China vs. India market size comparison

Market size (2010) US\$ billion



Source: Euromonitor.

1. Consumer durables defined as consumer appliances (refrigerator, home laundry, dishwasher, cooking appliances, microwaves, food preparation, small non-cooking kitchen appliances, vacuum cleaners, irons, personal care, heating and air treatment appliances, computers & peripherals, in-car entertainment)

2. FMCG defined as beauty and personal care, consumer health, homecare, hot drinks, soft drinks, pet care and packaged food

Consumption for the future

We estimate that India's consumption market will grow approximately 3.6x in size over the next decade. Overall consumption expenditure, estimated at US\$ 991 billion in 2010, is likely to grow to US\$ 3.6 trillion in 2020.

It is important to note that, consumption expenditure does not increase linearly with rising income across categories. Consumption curves for each category have been leveraged to provide category wise and consumer segment wise break-ups of the overall expenditure in 2020. Exhibit 3g provides an overview of expected consumption expenditure by category in 2020.

Food, housing & consumer durables and transport & communication are expected to remain the Top 3 categories, accounting for 65 percent of consumption expenditure. Food will remain the largest spend, with other categories nearly quadrupling in size over the next decade.

Exhibit 3h breaks up this consumption expenditure by consumer segment. In 2020, Next Billion consumers are expected to be the largest segment accounting for approximately 36 percent of Indian households. However, the Professional Affluent segment, representing 8 percent of households, is expected to dominate consumption — constituting 26 percent of overall consumption expenditure in 2020. The small town Next Billion segment is expected to be the second largest consumer, accounting for 23 percent of total expenditure.

We have seen that there are significant differences across consumer segments in their attitude, behaviour and spend patterns. Understanding this variation is critical to winning in the market. The following section contains an in-depth look at consumer shopping behaviour for food and groceries, consumer durables and apparel.

Exhibit 3g. Indian consumption expenditure expected to increase 3.6 times by 2020

Total consumption expenditure in India (US\$ billion)					
	2000		2010		2020
Food ¹	135	→ 2.4x →	328	→ 2.7x →	895
Housing and consumer durables ²	47	→ 4.0x →	186	→ 4.0x →	752
Transport and communication	43	→ 3.9x →	168	→ 3.9x →	664
Education and leisure ³	17	→ 4.2x →	71	→ 4.2x →	296
Apparel	18	→ 3.3x →	59	→ 3.8x →	225
Health	14	→ 3.5x →	49	→ 3.8x →	183
Others ⁴	25	→ 5.2x →	129	→ 4.4x →	570
Total	299	→ 3.3x →	991	→ 3.6x →	3,584

Source: Euromonitor, NSSO, BCG India consumer survey 2010, n=6278, BCG analysis.

Note: All spends in nominal dollars. Years represented as calendar year, 1 USD = 46 INR.

1. Includes spend on alcoholic beverages and tobacco (excludes food sold by catering services such as restaurants, hotels, kiosks, etc.)

2. Includes spend on utilities, home care products, servant salaries, consumer durables, home renovation, rent

3. Includes spend on internet, entertainment (picnic, eating out, etc.), children education

4. Includes spend on personal care, baby care, EMI, loan payment, holidays, social gatherings

Expected evolution of the shape of Indian consumption expenditure

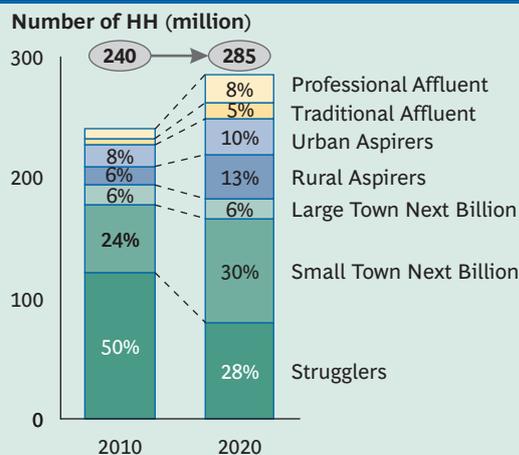
Contribution of the seven segments to the total consumption will change fundamentally over the next decade. This driven by the shifting demographics of India.

As illustrated in Exhibit 3h:

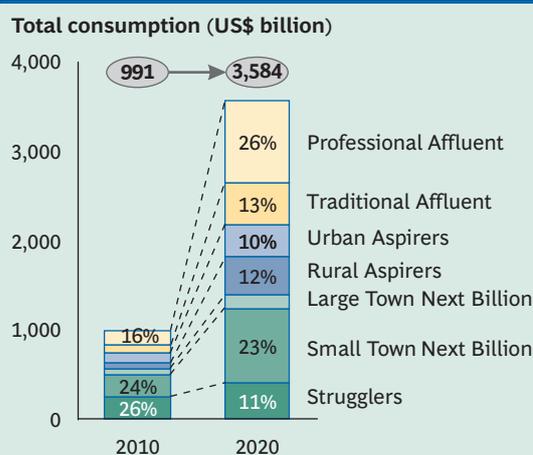
- ◇ Currently 51 percent of Indian households are Strugglers. However, rising incomes in the next decade will lift many of these households into the ranks of the Next Billion.
 - ◇ While Strugglers currently constitute the biggest segment in India in terms of the number of households, in 2020, the Next Billion are expected to constitute the largest segment, with 36 percent of households.
 - ◇ Similarly, rising incomes will increase the percentage of aspirer and affluent households. Currently, aspirers include 14 percent of households and affluent include 5 percent. In 2020, these segments are expected to grow, including 23 percent and 13 percent of households respectively.
- ◇ This demographic shift will also determine how the segments contribute to the overall consumption.
 - ◇ Currently, Strugglers contribute the most to consumption as a segment, accounting for 26 percent of the overall consumption
 - ◇ However, in 2020, affluent will contribute the most to consumption, with the two affluent segments together accounting for 39 percent of the overall consumption.
 - ◇ Among the affluent, Professional Affluents as a segment, accounting for 26 percent of the overall consumption, will contribute twice as much as the Traditional Affluent to the overall consumption. The Next Billion and aspirers will account for 28 percent and 22 percent of the overall consumption respectively.

Exhibit 3h. Households and consumption split by segments

Next billion segment likely to constitute ~36% of Indian households in 2020...



... But 'Professional Affluent' will dominate consumption with 26% share in 2020



Source: NCAER income distribution, Euromonitor, BCG India consumer survey 2010, Indian Readership Survey 2005 and 2010, BCG analysis.
Note: Consumption represented in nominal terms. Household income distribution based on 2010 prices, data represented for calendar year 2010.

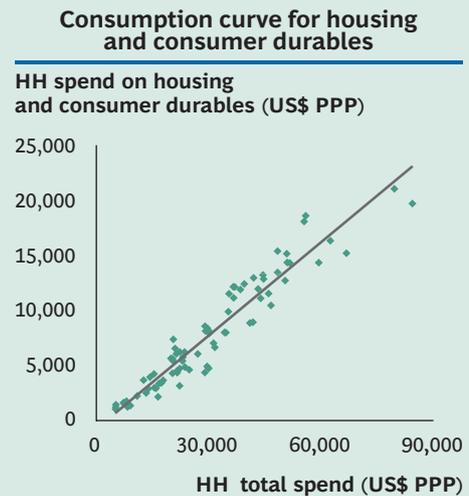
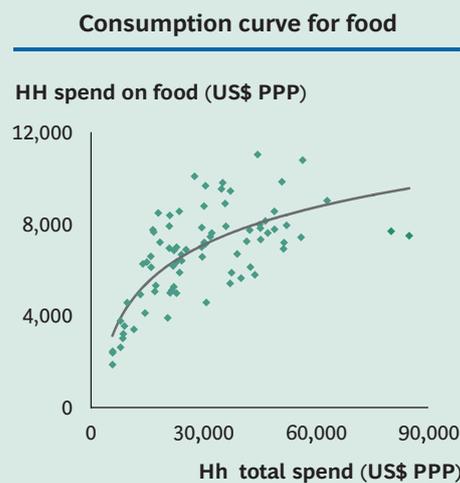
Category consumption curves provide insight into future expenditure levels

Consumption expenditure does not increase linearly with rising incomes across categories. As shown in Exhibit 3i, consumption curves differ by category, with the curve for food being flatter than that for housing and consumer durables. Moving along the consumption curve for a particular category gives us an indication of how spending on the category would change with rising income levels.

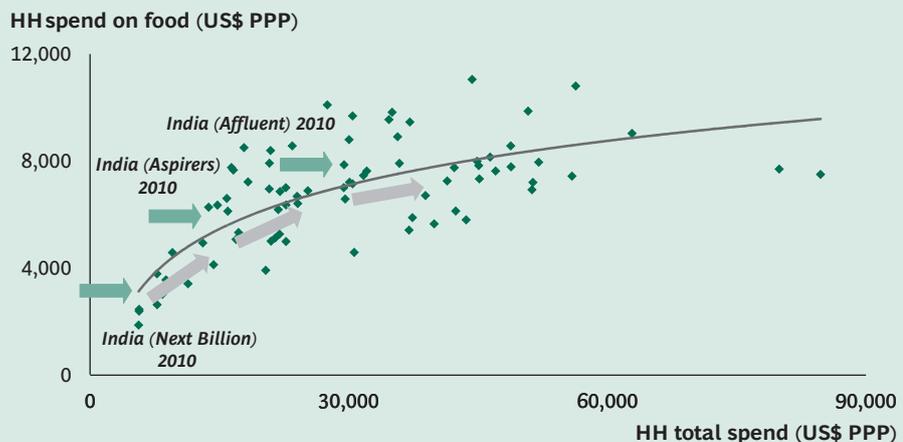
Therefore, combined with benchmarks and macro-economic projections, consumption curves can be leveraged to project category and consumer segment wise expenditure at a future point in time.

Exhibit 3i. Leveraging consumption curve to project market size

Consumption expenditure curve for food is flatter than that for housing



Expenditure on food per household vs. total expenditure per household across countries



Growth in spend for different income groups with rising incomes is dependent on the shape of the curve

Source: Euromonitor, BCG analysis.

Shopping Behaviour

Food and Groceries

As one of the most basic of needs, food is the largest consumption category in India, accounting for 33 percent of overall consumption expenditure. Currently estimated at US\$ 325 billion, food consumption is expected to nearly triple over the next ten years to reach US\$ 900 billion by 2020.

Food is the largest category in the consumption basket for all consumer segments except the affluent, for whom it is amongst the Top 3 spends. We spoke to over 4,000 consumers across all segments to understand their buying preferences and how they shop for food and groceries.

We identified five key themes which are likely to have far reaching implications for FMCG companies and food and grocery retailers.

Some of these are in line with conventional wisdom, while others indicate potential shifts in consumer buying behaviour.

- ◇ Trading up tendency increases with rising income levels, especially in food
- ◇ Purchase frequency, not product freshness, drives format preference
- ◇ Shopping is often a group activity, not limited to only the housewife
- ◇ Brands are critical till the consideration stage, but reduce in importance for actual purchase
- ◇ The last three feet at the store is the moment of truth: Key purchase decisions are taken at the store

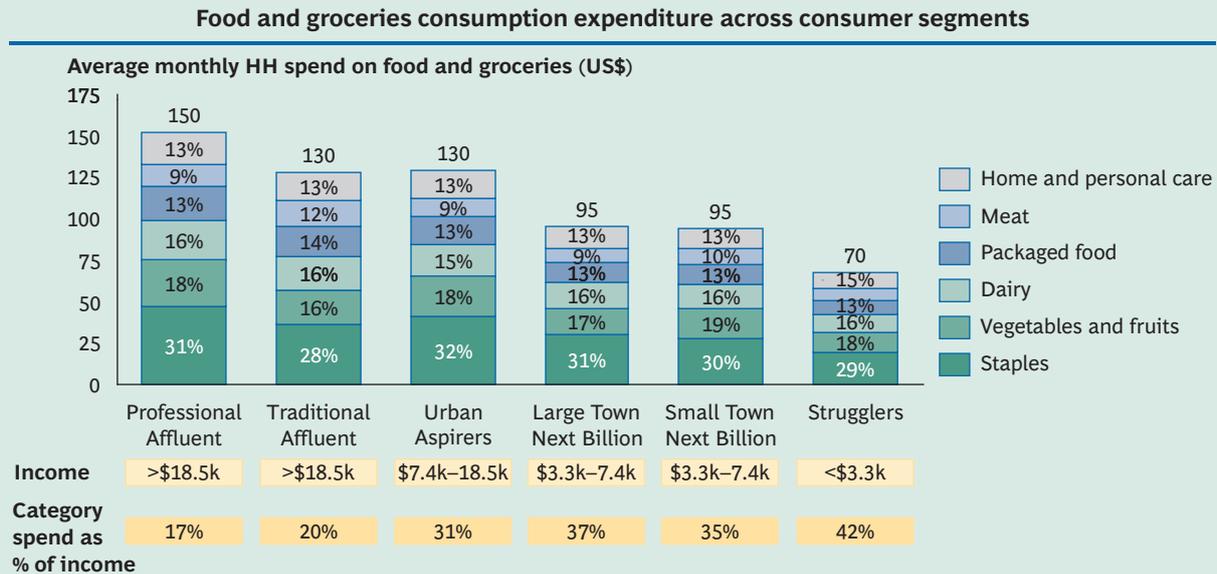
Trading up Tendency Increases with Rising Income Levels, Especially in Food

The contribution of food in a household's consumption basket decreases with rising income levels. As a percentage of total household income, the aspirer and Next Billion consumers spend twice as much as the affluent consumers on food. In fact, food is the largest expenditure for all segments other than the affluent, accounting for roughly 33 percent of what Next Billion families spend on each month.

As expected, the absolute amount consumers spend on food is closely linked to the household's income levels. Three key patterns emerge across consumer segments, as highlighted in Exhibit 4a:

- ◇ In absolute terms, the amount spent on food increases with income. Professional affluent consumers spend 1.5x more on food than Next Billion consumers each month.
- ◇ However, while the absolute amount spent on food differs by consumer segment, the food consumption basket is largely similar across segments. Staples, dairy and fruits & vegetables account for 66 percent of food expenditure across consumer segments.
- ◇ Interestingly, the food expenditure varies within affluent consumers, potentially explained by differences in the occupation and education levels between them. Traditional affluent families do not spend as much as the Professional Affluent, preferring to spend an amount similar to Urban Aspirers. This could be attributed to their greater value-for-money focus.

Exhibit 4a. Food and Grocery consumption expenditure amount varies by income, but basket similar across segments



Source: BCG India consumer survey 2011.

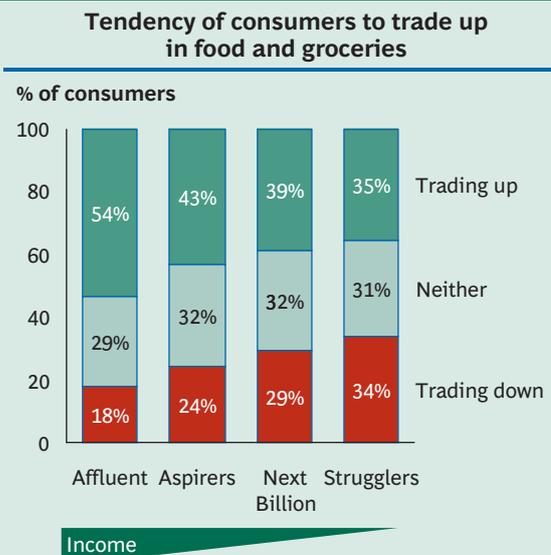
Given that the quantity of food consumed does not increase in the same proportion as food expenditure with rising income, we believe that these patterns indicate that consumers in India are trading up in food and groceries. With rising income levels, consumers demonstrate higher propensity to trade up, such as, buy higher quality, packaged, branded and more expensive food and grocery products (as shown in Exhibit 4b).

Purchase Frequency, not Product Freshness, Drives Format Preference

The frequency of purchase varies across food and grocery sub-categories. This behaviour is largely consistent across consumer segments. Dairy products are most frequently purchased, with usually a daily replenishment cycle. Fresh food, i.e. fruits & vegetables and meat, is often purchased multiple times a week. Staples and home & personal care are less frequently purchased, typically monthly. Packaged food shows high variation in purchase frequency (as shown in Exhibit 4c).

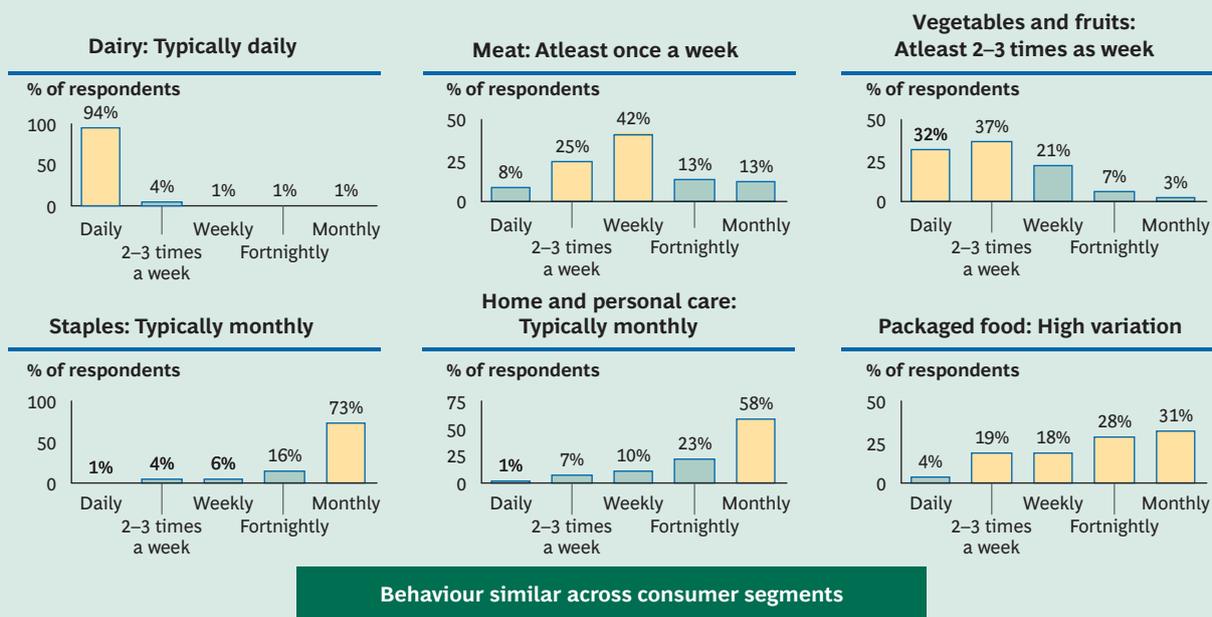
Consumers across segments prefer traditional trade for more frequent purchases.

Exhibit 4b. Propensity to trade up increases with rising income levels



Source: BCG Consumer Sentiment Survey 2010, BCG analysis.
 Note: Trading Up for a product category is defined as the tendency of a consumer to consciously spend more to get a product that is better than the rest, while Trading Down for a product category is defined as the tendency of a consumer to consciously spend lesser even if one gets a product that is not as good as the rest.

Exhibit 4c. Variation in purchase frequency across food and grocery sub-categories



Source: BCG India consumer survey 2011.

As illustrated in Exhibit 4d, majority of consumers buy dairy and fresh food from traditional trade, and visit modern trade for less frequent purchases such as staples and home & personal care.

The preference for modern trade increases with income, with affluent consumers tending to purchase more from supermarkets and hypermarkets compared to aspirers and Next Billion consumers.

It is interesting to note that the share of wallet for modern trade in small town Next Billion consumers is currently very low, possibly due to lack of sufficient access in tier 3 and tier 4 cities. These consumers have shown high levels of modern trade adoption in other categories such as apparel, and potentially represent a large untapped opportunity for food and grocery retailers.

We asked consumers the main reasons why they prefer a particular format for their food and grocery shopping (as shown in Exhibit 4e).

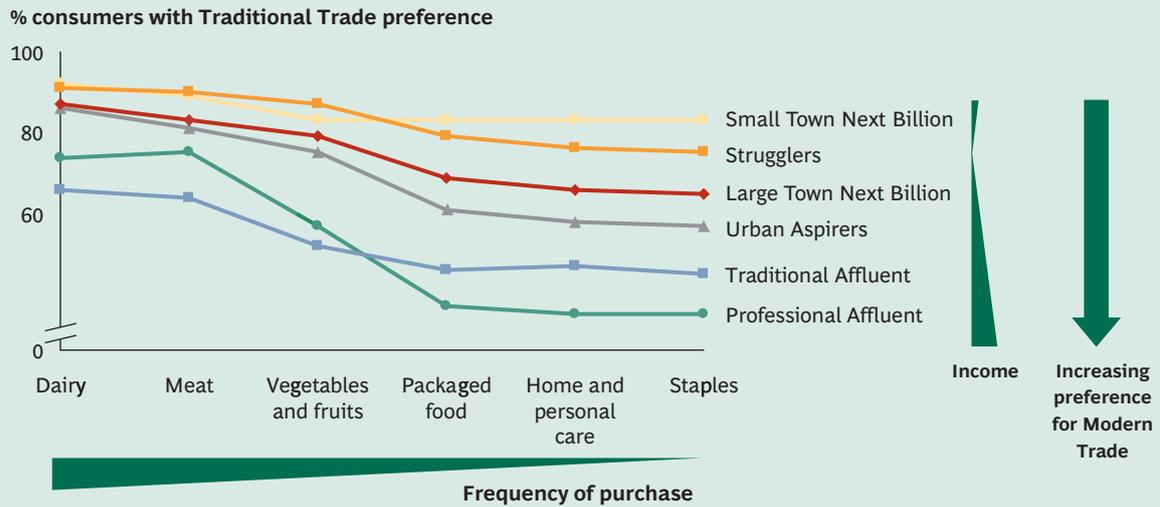
◇ Not surprisingly, location is the primary reason for traditional trade preference. We have found that this

is the driving factor for consumers across segments buying more frequently purchased categories from these stores. For less frequent purchases, consumers are willing to travel longer distances to the store.

- ◇ Traditional trade is also rated higher on trustworthiness, with consumers indicating stronger relationships with these stores.
- ◇ Consumers indicate that the credit facility offered by traditional trade is also a significant reason for their traditional trade preference.
- ◇ Surprisingly, product freshness at traditional trade is no longer a differentiator. Majority of consumers rated modern trade higher on product freshness. Modern trade also scores higher on product quality and cleanliness.
- ◇ Consumers also value the ability to negotiate prices at traditional trade, and believe that they are more reasonably priced. While this could hold true potentially for MRP driven products, this is likely a differentiator for fresh food and unpackaged staples.

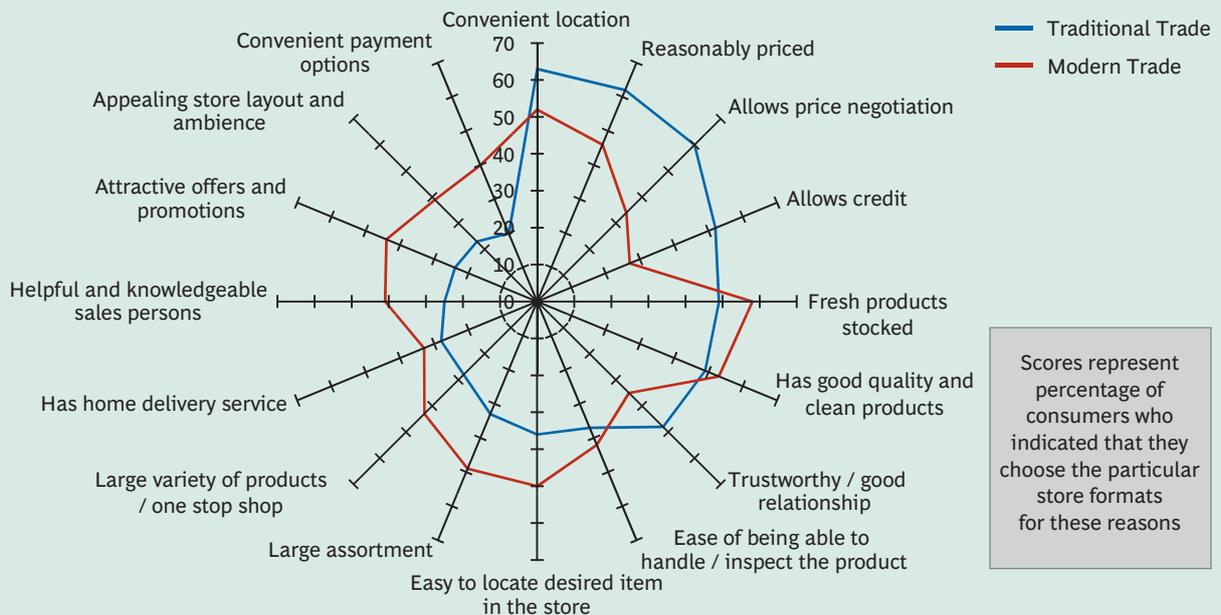
Exhibit 4d. Consumers prefer Traditional Trade for more frequent purchases, Modern Trade preference increases with income levels

Format preference for food and grocery sub-categories across consumer segments



Source: BCG India consumer survey 2011

Exhibit 4e. Location, price, credit and existing relationships are key drivers of purchase from Traditional Trade, Modern Trade preferred for all other parameters



Source: BCG India consumer survey 2011.

- ◇ Finally, as expected, modern trade scores higher on most other parameters — product range and assortment, store layout and ease of locating products in the store.

Shopping is Often a Group Activity, not Limited to Only the Housewife

It is a common belief that purchase of food and groceries is the housewife’s responsibility, and it is the housewife who does the household’s food and grocery shopping. As a result, many companies actively target housewives in all their programmes. We have found that the woman is the decision maker and purchaser in eight out of ten cases.

However, she does not shop alone. When asked whether they shop alone or with others, majority of consumers indicated that they often have company while purchasing food and groceries. As illustrated in Exhibit 4f, over two out of three married consumers shop for food and groceries with their spouses and sometimes with their children.

Therefore, food and grocery shopping is often a group activity, where the family often accompanies the shopper to the store to execute the purchase.

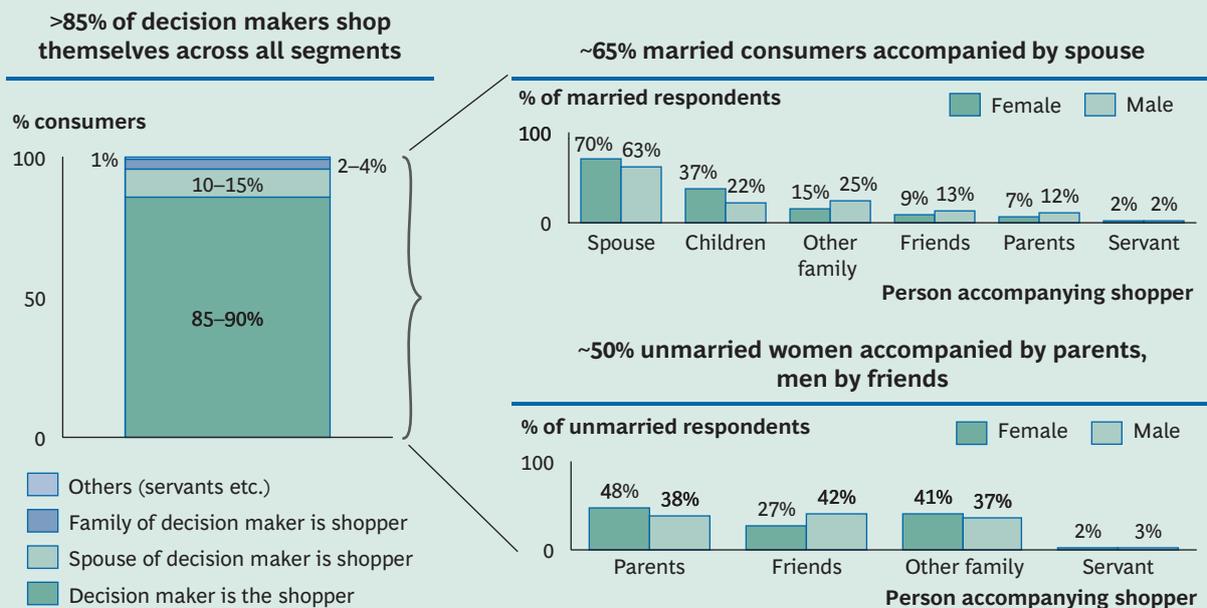
Brands are Critical till the Consideration Stage, but Reduce in Importance for Actual Purchase

A majority of consumers prefer to choose from a basket of brands, rather than buy a single brand. Therefore, while it is critical for a brand to be in the consumers’ consideration set, it does not matter beyond that. There is limited brand loyalty except in some categories, usually health and baby care related.

Brand recognition and loyalty increases with income levels. We have found that five out of ten Professional Affluent consumers are likely to buy the same food and grocery brand. In contrast, less than two out of ten aspirers and Next Billion consumers are particular about buying the same brand. Within affluent consumers, professional affluent show higher brand stickiness compare to Traditional Affluent (as shown in Exhibit 4g).

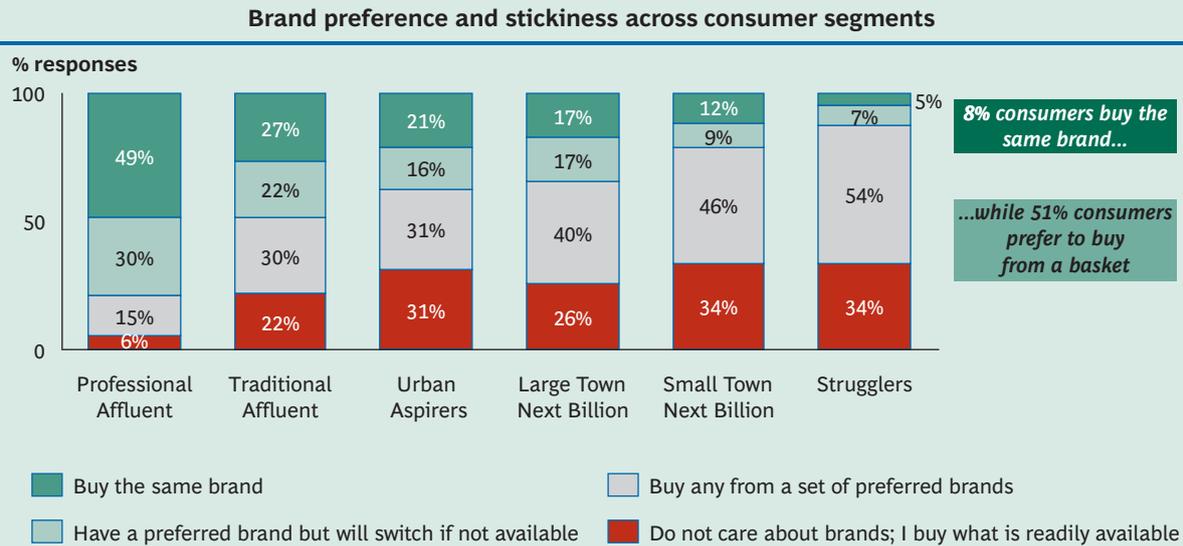
Even where brand recognition and loyalty is high, consumers are likely to switch if their preferred brand is not available. Consumers state lack of availability and schemes / offers as the key reasons for switching brands.

Exhibit 4f. While primary decision maker is also the shopper, food and grocery shopping typically a group activity



Source: BCG India consumer survey 2011

Exhibit 4g. Majority of consumers prefer to buy food and groceries from a basket of brands



Source: BCG India consumer survey 2011

Note: Consumers were surveyed about their buying habits in the following categories: staples, personal care, skin care, detergent, household care items, packaged foods, snack foods, packaged beverages and baby care. Responses in all categories have been aggregated for the analysis.

The Last Three Feet at the Store is the Moment of Truth: Key Purchase Decisions are Taken at the Store

A majority of consumers indicated that refilling or topping – up of supplies as the primary reason for visiting a food and grocery store.

While the extent of planned purchase for food and groceries varies across sub-categories, it is broadly similar across consumer segments.

- ◆ Low frequency purchases, such as staples, home and personal care are typically part of the planned purchase basket. Over seven out of ten consumers indicate that these food and grocery categories are part of the planned purchase basket for the month.
- ◆ Fresh and packaged foods, such as dairy, fruits & vegetables and meat, are less planned as consumers typically purchase these multiple times a week.

It is interesting to note that consumer price sensitivity is inversely related to the extent of purchase planning for

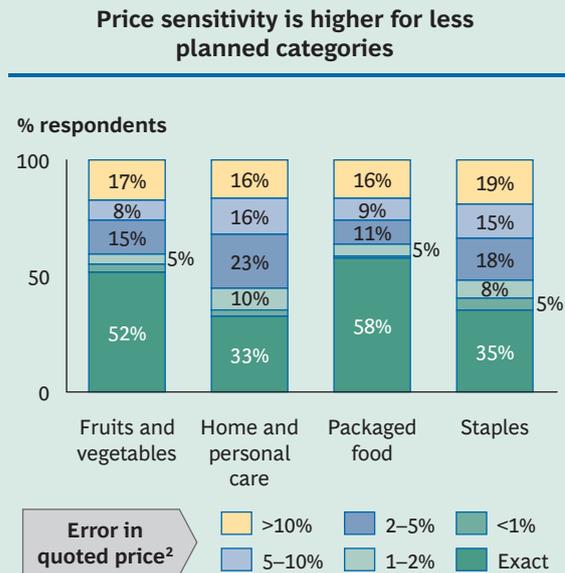
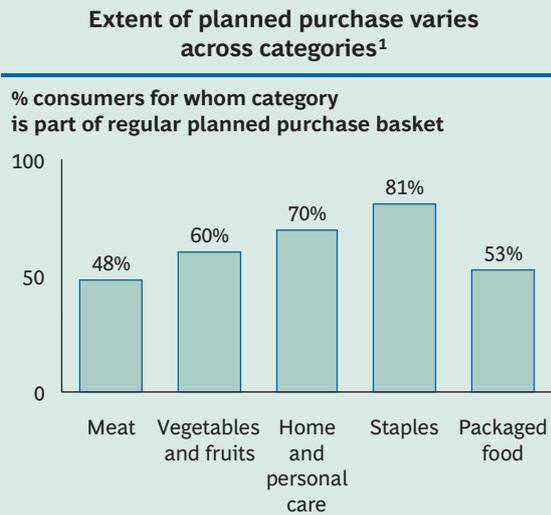
the sub-category. These behaviours are illustrated in Exhibit 4h.

- ◆ Consumers are less price sensitive while purchasing staples and home & personal care products, which are typically part of the planned purchase basket.
- ◆ Price sensitivity is higher for fresh and packaged foods, where five out of ten consumers remember the exact price they paid at the store.

In addition, even though majority of consumers carry shopping lists, they often buy items outside the list. As illustrated in Exhibit 4i, less than three out of ten consumers strictly follow their shopping list for their food and grocery purchases. Others either do not carry a shopping list, or are not constrained by it. This indicates opportunity for both stores and brands.

Therefore, the store is the moment of truth for food and grocery shopping. It is in the last three feet at the store where the majority of food and grocery product choices are made by primary decision makers while executing the purchase.

Exhibit 4h. Low frequency purchases typically part of planned basket, consumers also less price sensitive for these categories



Source: BCG India consumer survey 2011.

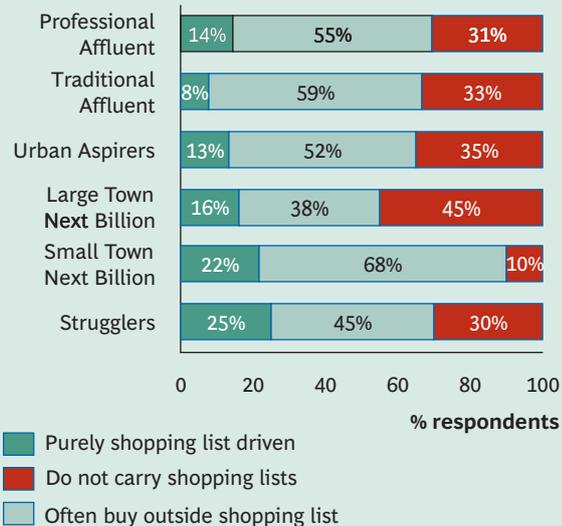
Note: Products with sample size greater than 50 were chosen for representation.

¹Dairy has been excluded from the sample, as it is typically home delivered or purchased on a daily basis.

²Price error calculated as: (Quoted price - Actual price) / Actual price.

Exhibit 4i. Majority of consumers do not shop purely based on a list

<25% consumers purely shopping list driven



Source: BCG India consumer survey 2011

Key Imperatives

The food and grocery market is a large opportunity for both FMCG and retail companies over the next 10 years. It is critical for companies to answer the following questions to capture this opportunity:

- ◇ How can companies trigger consumers to trade-up? — Especially the Traditional Affluent and Next Billion segments.
- ◇ What approach should be adopted to orient the shopping experience around the entire family?
- ◇ What does it take to win at the point of sale?
- ◇ How can modern trade overcome location disadvantage vis-a-vis traditional trade?
- ◇ What would it take to simulate a 'price negotiation' experience, similar to traditional trade, in a modern trade outlet?



Shopping Behaviour

Consumer Durables

Consumer durables penetration and ownership is like a mirror reflecting economic growth and changing lifestyle. Over the next ten years, India's expenditure on housing and consumer durables is expected to grow 4x, from US\$ 185 billion in 2010 to over US\$ 750 billion in 2020.

We spoke to over 5,000 consumers across segments, who had purchased consumer durables in the last year, to understand their buying preferences and how they shop for consumer durables.

We identified five key themes which are likely to have far reaching implications for consumer durables companies and retailers.

Some of these are in line with conventional wisdom, while others indicate potential shifts in consumer buying behaviour.

- ◇ Desire to keep pace with changing lifestyles is the key trigger for purchase
- ◇ Brand pre-decision varies across product categories
- ◇ Purchase is a highly planned and researched decision, the primary objective of the store visit is to execute the purchase
- ◇ Organized retail is preferred for more expensive product categories
- ◇ Online shopping still at a nascent stage — lack of awareness is the key barrier

Desire to Keep Pace with Changing Lifestyles is the Key Trigger for Purchase

Consumers in India today are a witness to dramatic changes in their lifestyle — ranging from media exposure to cultural norms to increased awareness. These lifestyle changes are driving consumers to purchase more electronics and durables.

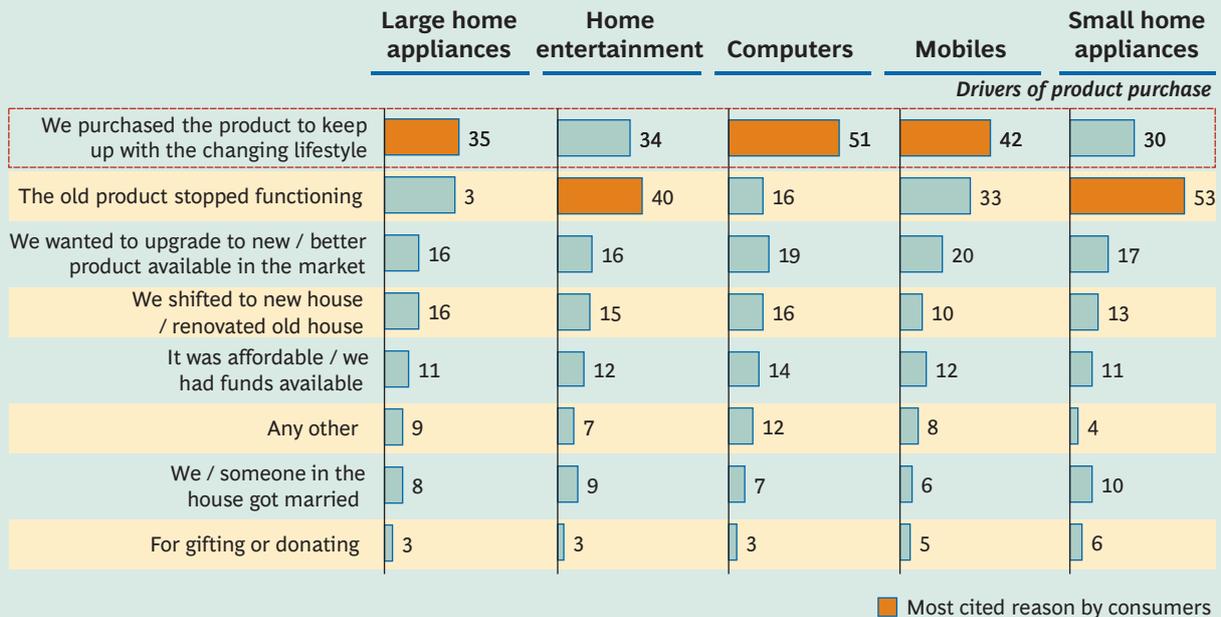
We have found that majority of consumers who bought large home appliances, computers and mobile phones in the last year did so to keep up with their changing lifestyle. Home entertainment and small home appliance purchases were more replacement oriented — when the old product stopped functioning. However, for these sub-categories as well lifestyle was an important consideration in the purchase decision (as shown in Exhibit 5a).

An example of this behaviour is seen in the purchase of computers, which had the highest number of first time purchasers in the past year, most of them small town Next Billion consumers.

Also, as expected, consumer durable ownership and spend increases with income levels. As income rises, penetration of basic consumer durables flattens out, accompanied by increased off-take in advanced consumer durables. The affluent segment spends 1.5–2.5x more than Next Billion consumer segment on consumer durables, with the difference in spend being highest for computers and mobile phones.

Spend is also higher in urban India, with Large Town Next Billion consumers spending more than their small town counterparts.

Exhibit 5a. Desire to 'keep up with changing lifestyle' is the primary purchase driver across most consumer durable categories



Source: BCG India consumer survey 2011.

Note: Sample defined as the total number of products purchased and not the number of respondents.

Brand Pre-decision Varies Across Sub-categories

Consumers consider product brand as an important factor in the purchase decision. While the extent of brand pre-decision varies across product sub-categories, brand loyalty and stickiness is high. Only one in ten consumers claim to change their brand decision in the store.

Brand preference is highest for mobile phones and home entertainment systems, with 9 out of 10 consumers shopping for these products with a brand in mind. Highest brand indecision is seen in computers and small home appliances (as shown in Exhibit 5b).

Our qualitative research suggests that some of these responses could be coloured by consumer bias (where people do not want to acknowledge that their decision changed at the store for large purchases).

Store private labels have not yet gained traction, with less than two out of ten consumers considering them as part of the purchase basket. The quality of these products is also considered average or below average by consumers.

Purchase is a Highly Planned and Researched Decision, the Primary Objective of the Store Visit is to Execute the Purchase

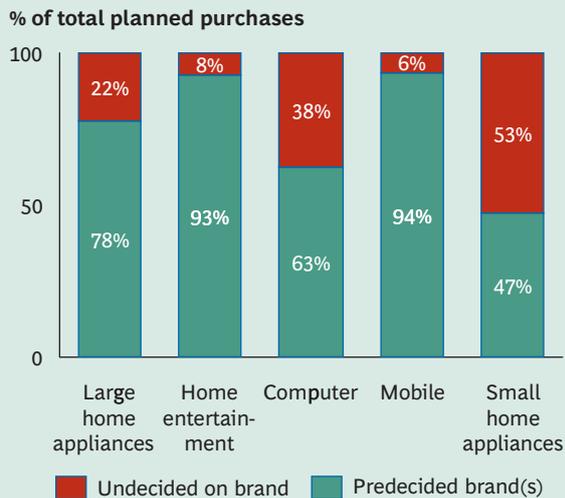
We found that nine out of ten consumers plan their consumer durables purchase before visiting the store, i.e. impulse purchases are low. This is illustrated in Exhibit 5c.

Nine out of ten consumers also enter stores to shop for consumer durables with a budget in mind. Most of them stick to this budget, with only one out of ten consumers exceeding their budget, typically while purchasing computers (as shown in Exhibit 5d). This again, could be consumer bias to project themselves as disciplined consumers.

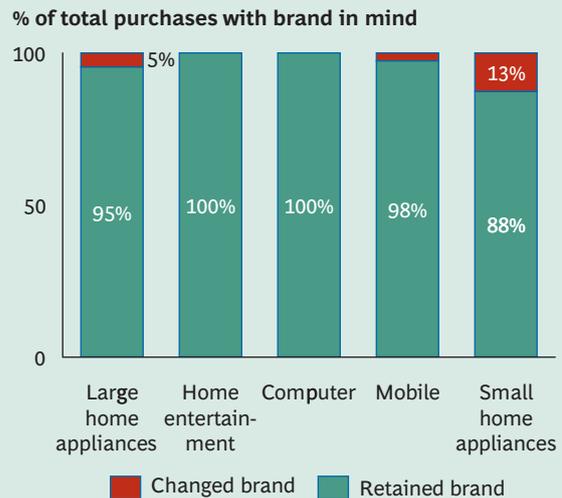
In addition, consumers across segments are highly price sensitive while purchasing consumer durables. We found that for most categories, eight out of ten consumers remember the price they paid for the product with less than a five percent margin of error. This indicates a high focus on price as a factor for purchase.

Exhibit 5b. Brand pre-decision varies across sub-categories, but stickiness is high

Brand pre-decision highest for home entertainment and mobile phones



Most consumers claim to not change their pre-decided brand decision at the store

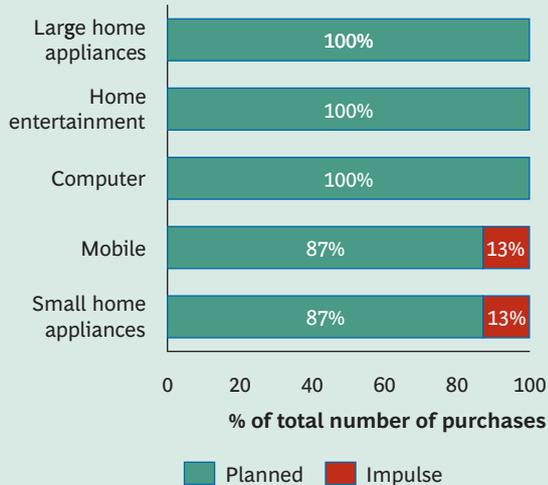


Note: Sample defined as the total number of products purchased and not the number of respondents.

Source: BCG India consumer survey 2011.

Exhibit 5c. Majority of consumer durables purchases are planned

Majority of purchases planned



Note: Sample defined as the total number of products purchased and not the number of respondents.

Source: BCG India consumer survey 2011.

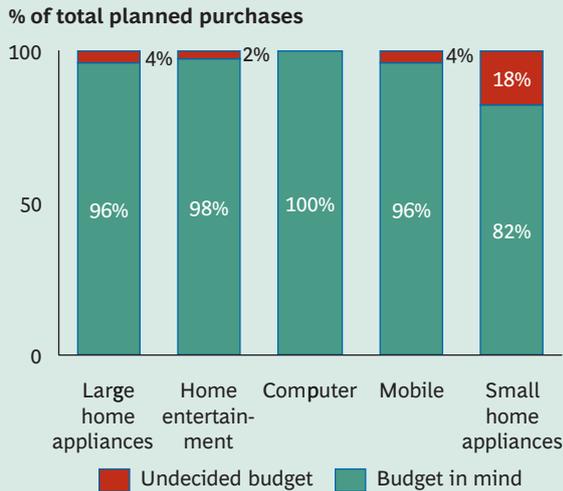
Consumers also indicated that the purchase decision is largely made by the shopper or the spouse. We found this behaviour to hold in eight out of ten consumers across segments. Consumers rely on feedback from family and friends as an important source of information in the decision making process.

Once the purchase decision has been taken most consumers complete the purchase after visiting only one or two stores. As illustrated in Exhibit 5e, five out of ten consumers complete the purchase in the first store they visit, with nine out of ten consumers completing the purchase after visiting two or three stores. This behaviour is consistent across consumer segments and product categories.

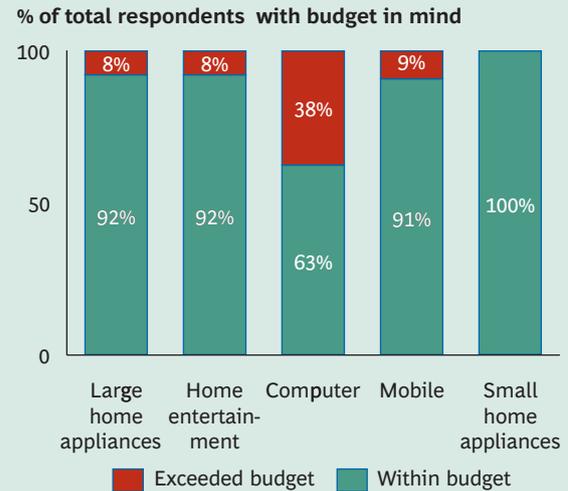
In the store, majority of consumers interact with the sales person. While the nature of the interaction varies across product categories, majority of consumers enquire about the product's features. Active engagement with the sales person, where the 'selling' happens, is highest in product categories where brand pre-decision is lower — large home appliances, computers and small home appliances (as shown in Exhibit 5f).

Exhibit 5d. Majority of consumer shop with a pre-decided budget and stick to it

Nine out of ten consumers shop for consumer durables with a budget in mind



Majority consumers do not exceed their budget, except for purchase of computers

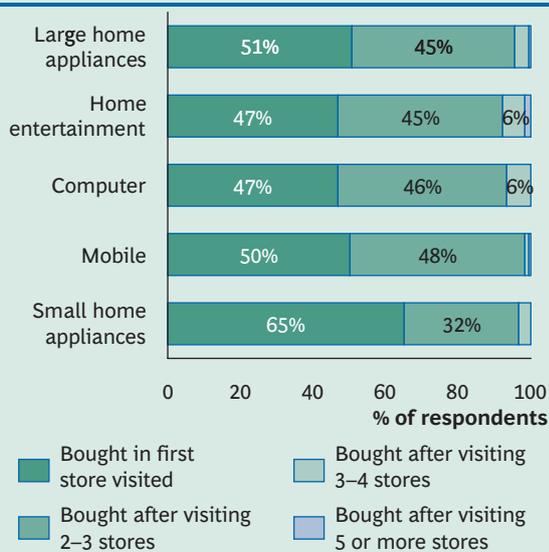


Source: BCG India consumer survey 2011.

Note: Sample defined as the total number of products purchased and not the number of respondents.

Exhibit 5e. On an average, people visit 1-2 stores before making final purchase

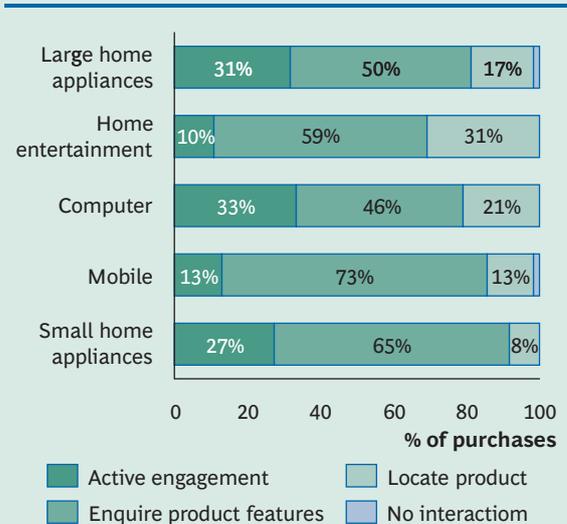
Number of stores visited by consumers to execute the purchase



Source: BCG India consumer survey 2011.

Exhibit 5f. High interaction with store sales agent seen across categories

Type of interaction with the sales person at the store



Note: Sample defined as the total number of products purchased and not the number of respondents.

Source: BCG India consumer survey 2011.

Organized Retail is Preferred for More Expensive Product Categories

Consumers consider national and regional electronic chains, exclusive showrooms and hypermarkets as organized retail. However, within these formats, differences in consumer preference exist — both for products purchased and across consumer segments. Therefore, organized retail cannot be considered as a single cluster and a de-averaged view is required.

For more expensive product categories, such as large home appliances, home entertainment and computers, consumers, across segments, indicate a higher preference for organized retail. This preference also varies by income levels, with Next Billion consumers indicating lower preference for organized retail vis-à-vis aspirers and affluent consumers.

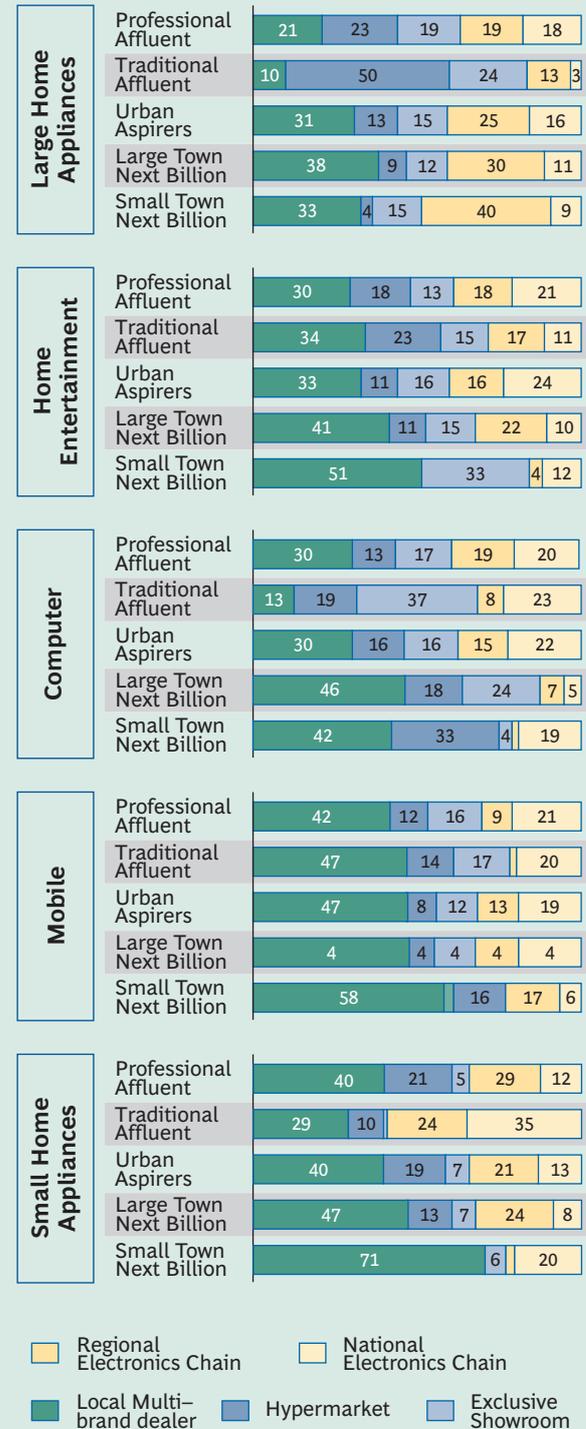
It is interesting to note that, within organized retail, no specific format has a dominant share across consumer segments for these products. Also, small town Next Billion consumers indicate higher preference for local multi-brand dealers for their purchases.

Local multi-brand dealers are preferred for less expensive product categories, such as small home appliances and mobile phones. This behaviour holds across consumer segments. These preferences are illustrated in Exhibit 3g.

We asked consumers the main reason why they prefer a particular format for their consumer durables shopping (as shown in Exhibit 3h).

- ◆ Consumers do not perceive a significant difference in store offering in terms of product assortment and delivery between formats. All formats are considered largely similar in product assortment and speed of product delivery.
- ◆ Consumers value the helpful and well informed sales representatives in organized retail outlets. This is a key differentiator over local multi-brand dealers, who have the advantage of being more conveniently located.
- ◆ However, price remains the most important parameter driving store format selection. Consumers perceive local dealers to be more reasonably priced, with higher willingness to negotiate than modern trade.

Exhibit 5g. Organized retail preferred for more expensive product categories



Source: BCG India consumer survey 2011.

Consumers also spend more in organized retail stores, 1.3–1.4x more than what they spend at the local multi-brand dealer. This is likely attributed to the product mix purchased from these stores, with local dealers having a higher share of small home appliances and home entertainment sales.

Within organized retail formats, consumer tend to spend the most on products in exclusive company showrooms followed by national electronics chains.

Online Shopping Still at a Nascent Stage – Lack of Awareness is the Key Barrier

Current penetration of online shopping is extremely low in India. Online shopping accounts for less than one percent of total expenditure on consumer durables.

Lack of awareness is the key barrier for online purchases, with the majority of consumers not being aware that they can purchase consumer durables products online. Furthermore, Professional Affluent

consumers, who are more aware, are unsure of the purchase process.

Key Imperatives

With a nearly linear consumption curve, the consumer durables market in India will see secular growth driven by rising prosperity levels. Key questions to be answered to capture this opportunity are:

- ◇ How can companies strengthen the brand image in the consumer’s mind?
- ◇ What strategies do companies need to adopt to navigate consumers to the right / particular store to execute the purchase?
- ◇ What is the best way to convert the consumer walk-in into a sale?
- ◇ How to upsell and cross sell to consumers?

Exhibit 5h. Key reasons for format preference: Knowledgeable sales person key differentiator for organized retail formats, location for local dealers



Source: BCG India consumer survey 2011.



Shopping Behaviour

Apparel

Apparel constitutes six percent of India's consumption expenditure today. One of the fastest growing categories, it is expected to grow 4x over the next decade, with an estimated consumption expenditure of US\$ 225 billion in 2020. This growth will be driven not only by favourable demographics, but also socio-cultural and attitudinal shifts that are taking place in India.

Not surprisingly, spend on apparel increases with rising income levels. Apparel constitutes ten percent of the consumption basket of affluent consumers, compared to five percent for small town Next Billion. In absolute terms, affluent consumers spend 2.5x more than small town Next Billion on apparel.

We spoke to over 3,500 consumers across segments to understand their buying preferences and how they shop for apparel.

We identified five key themes which are likely to have far reaching implications for apparel companies and retailers. Some of these are in line with conventional wisdom, while others indicate potential shifts in buying behaviour.

- ◇ Apparel shopping is driven by occasion, rather than functional need
- ◇ Fabric quality and brand image are key criteria in driving consumer choice
- ◇ Large opportunity for private / store labels
- ◇ Stores need to tailor value proposition to focus on specific consumer segments

Apparel Shopping is Driven by Occasion, Rather than Functional Need

While spend on apparel varies across consumer segments, it is interesting to note that the primary driver of the purchase decision is similar across segments.

Consumers, across segments, shop for apparel most during occasions such as festivals, weddings and birthdays. In fact, over eight out of ten consumers purchase apparel during festivals.

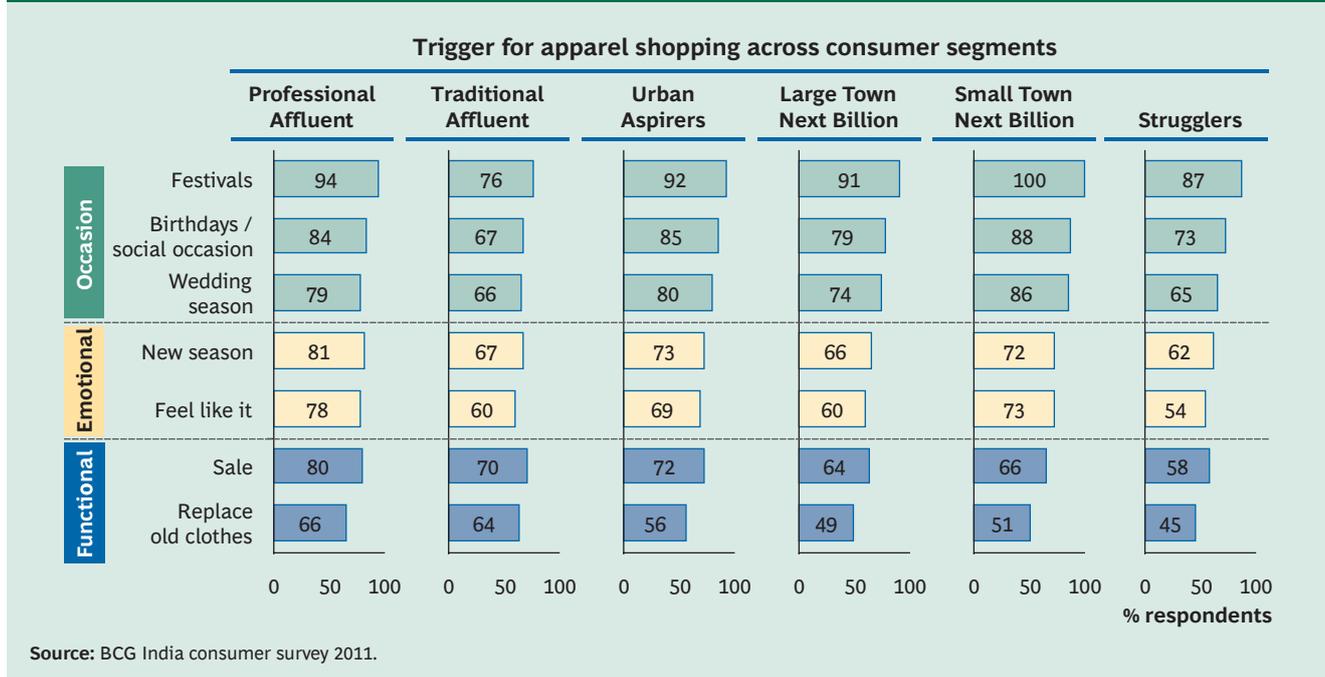
Interestingly, function driven apparel purchases are less frequent. These are closely linked to income levels, with higher income segments more likely to shop for apparel during a sale and for specifically replacing a worn garment.

We also found that the tendency to buy apparel due to emotional reasons or changing fashion seasons varies significantly across consumer segments. The Professional Affluent, Urban Aspirers and small town Next Billion segments have greater propensity to buy apparel due to these reasons. These buying preferences are illustrated in Exhibit 6a.

Majority of consumers indicate that they enjoy the experience of shopping for apparel, independent of the trigger for the purchase decision. It is a time for fun.

It is also interesting to note that eight out of ten consumers claim to shop for apparel with a budget in mind. While consumers are not particularly price sensitive, most indicated that they shop within the pre-decided budget, with the tendency to exceed the budget highest in women's Indian wear.

Exhibit 6a. Apparel shopping driven by occasion rather than functional need



Fabric Quality and Brand Image are Key Criteria in Driving Consumer Choice

Across consumer segments, for both men and women, quality of fabric and brand are amongst the most important criteria in apparel selection. Other factors such as durability and fit are also considered, with varying levels of importance. Professional affluent, aspirers and small town Next Billion segments show similar preferences and consider fit as an important criterion in selection. In contrast, Traditional Affluent and Large Town Next Billion segments give greater importance to durability.

Not surprisingly, lower income segments are more price conscious. These consumers rated comfort to be relatively less important in the purchase decision. These preferences are corroborated by the higher penetration of more expensive, branded, ready-made apparel in higher income consumer segments (as shown in Exhibit 6b).

Large Opportunity for Private / Store Labels

It is interesting to note that while brand is an important criterion in apparel selection, many consumers do not

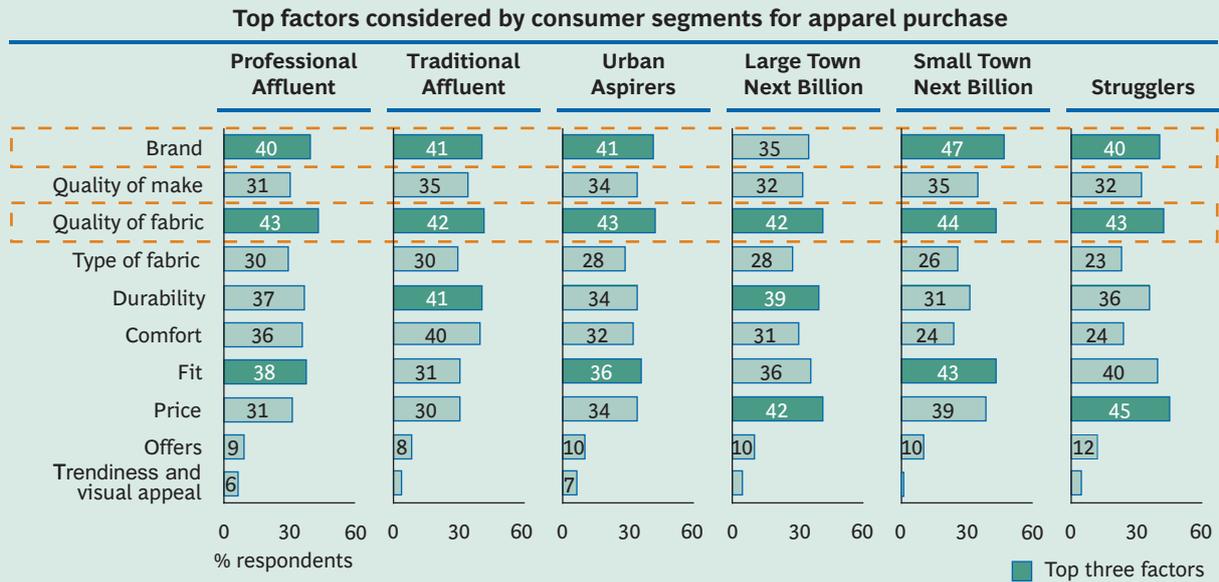
shop for apparel with a pre decided brand in mind. Six out of ten women and five out of ten men stated that they are undecided on brand when they visit stores to purchase apparel. This behaviour is similar across different types of apparel — workwear, casualwear, Indian and Western wear.

Also, consumer awareness of private labels is comparable to most other apparel brands. Unlike other consumption categories, consumers also actively consider private label brands in their purchase set. This behaviour is different from other categories, where private labels are not considered as comparable alternatives.

It is also interesting to note that when consumers have a pre-decided apparel brand in mind, majority of them tend to retain this preference while shopping. Consumers who switched brands indicated that offers & promotions and lower price alternatives were the key reasons for the change (as shown in Exhibit 6c).

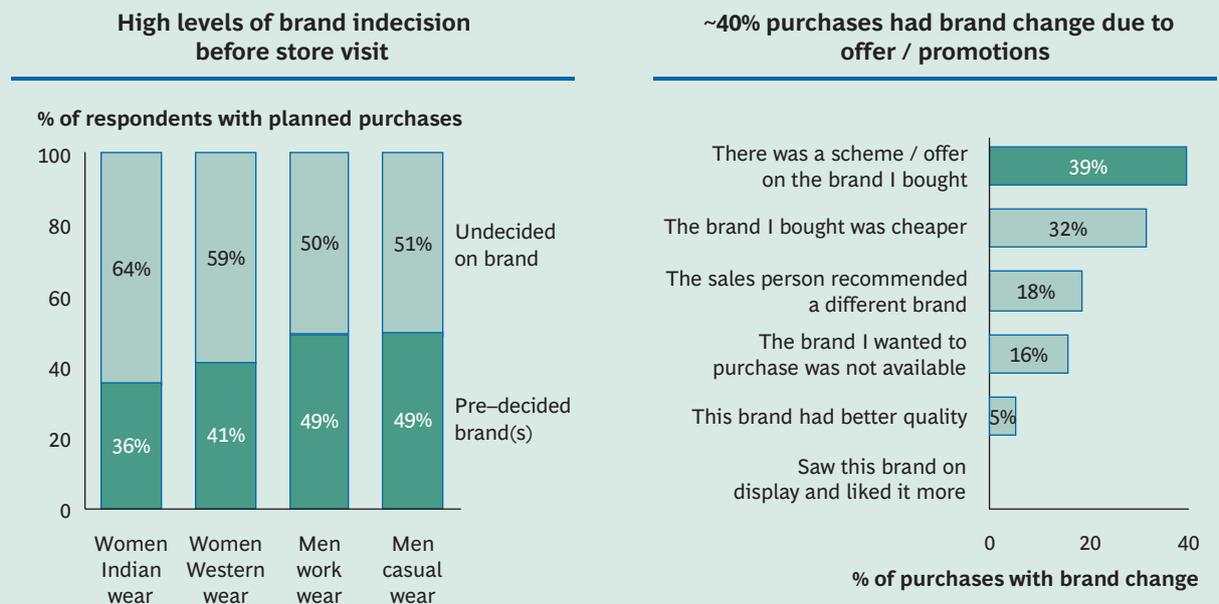
Therefore, apparel is a level playing field — there is an opportunity for private labels / store brands to capture the consumer's mindspace and increase share of wallet in the apparel spend basket.

Exhibit 6b. Fabric quality and brand primary factors driving apparel choice across segments



Source: BCG India consumer survey 2011.

Exhibit 6c. While most consumers do not pre-decide apparel brands, stickiness is high for those who do



Source: BCG India consumer survey 2011.

Stores Need to Tailor Value Proposition to Focus on Specific Consumer Segments

We found that majority of consumers shop for apparel every two or three months. It is interesting to note that consumers tend to visit all store formats with similar frequency while shopping for apparel. This behaviour is largely consistent across segments, with minor differences (as shown in Exhibit 6d).

However, while the frequency of store visits is similar, share of wallet of each store format varies significantly by consumer segment. Therefore, a de-averaged view of segment wise format preference is required.

- Preference for modern trade increases with income levels, with an 80–90 percent share of wallet of affluent consumers and 70 percent share of wallet of Urban Aspirers. Within modern trade formats, affluent consumers spend more in exclusive showrooms while hypermarkets have a higher share of wallet of aspirers.
- Amongst lower income segments, the Large Town Next Billion and Strugglers prefer buying apparel from local clothing stores, followed by hypermarkets.

- Where present, hypermarkets have shown high penetration levels in tier 3 and tier 4 cities, with approximately 60 percent share of wallet of small town Next Billion consumers.

Understanding the way in which consumers perceive the various store formats provides insight into this behaviour.

Across segments, consumers view their most preferred format favourably across ALL parameters and do not differentiate on specific dimensions. They 'love' the full package and are willing to give it the benefit of doubt.

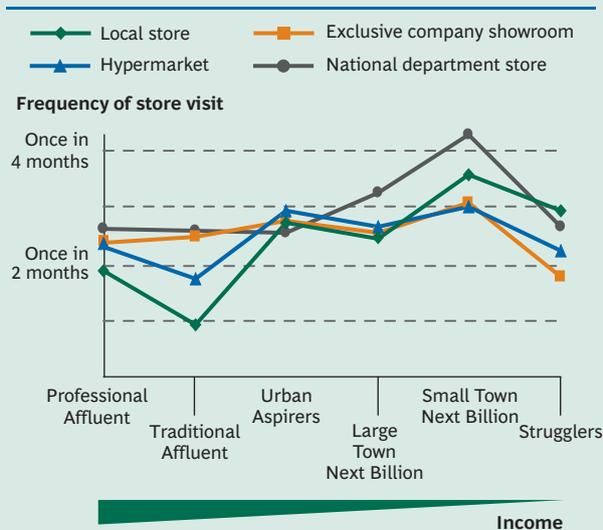
Interestingly, they do it even after having visited other formats, almost at similar frequency.

It is also important to note that different formats win with different segments and there is no one single winner. This is clearly reflected in Exhibit 6e.

This implies that targeting specific consumer segments and tailoring the store's value proposition to their requirements would be the effective strategy to capture disproportionate share of wallet.

Exhibit 6d. Visit frequency not correlated to share of wallet

Most consumer segments visit an outlet at least once in 2 months



Source: BCG India consumer survey 2011.

Modern Trade preference increases with income, Small Town Next Billion being exceptions

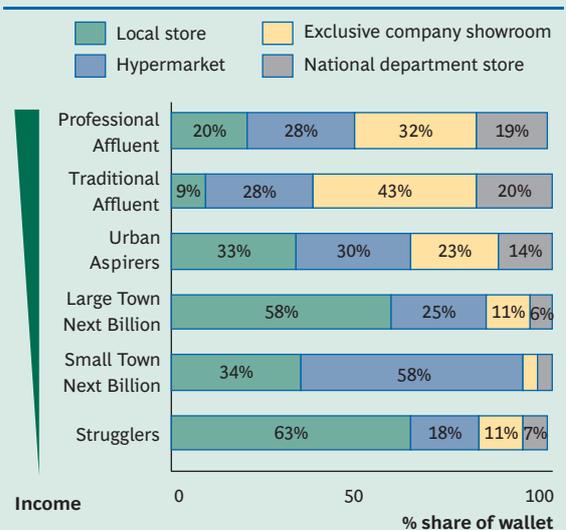
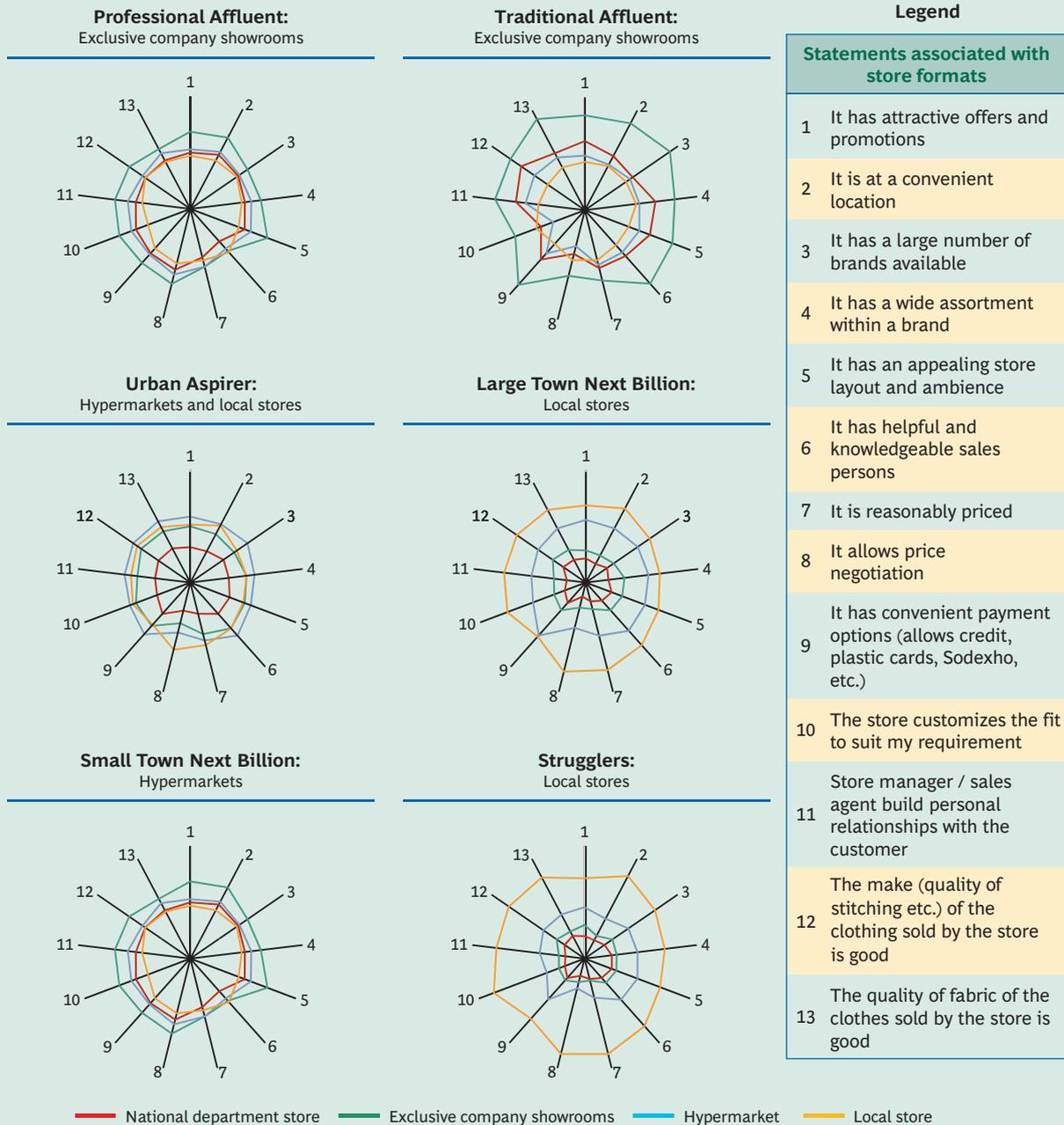


Exhibit 6e. Consumers view their most preferred format favourably across ALL parameters

Preferred store formats of the segments based on positive associations



Source: BCG India consumer survey 2011.

Note: Scale is 0–70%. Axes represent percentage of consumers who associate these characteristics with particular store formats.

Key Imperatives

The apparel market, expected to quadruple in size over the next decade, offers both opportunities and challenges for apparel companies and retailers.

Key questions these companies need to address are:

- ◇ How can companies create more occasions for consumers to shop for apparel?
- ◇ What will it take to build / strengthen brand loyalty?
- ◇ How can stores drive consumers to purchase their private labels? How can apparel brands manage this challenge?
- ◇ Which specific consumer segments should retailers target at their stores? What approach is required to better orient the offering and shopping experience around these consumers?



Appendix

Consumer Research Methodology

The consumer research was conducted by interviewing approximately 12,500 shoppers across different cities, income & education backgrounds. Separate sets of interviews were conducted for the three categories: Food and Groceries, Consumer Durables and Apparel. The demographic data captured includes age, gender, marital status, education, occupation and monthly household income. The interviewees are SEC A, B or C respondents with a monthly household income of more than Rs. 12,000. The quotas covered are age groups, income segments, gender and modern trade penetration. The sampling across all three categories was random for penetration and purposive for mains.

Food and Groceries

Over 4,000 consumers were interviewed regarding Food and Groceries. Only the consumers who are responsible for the Food and Groceries shopping of the household were chosen as respondents.

The consumer research was carried out in 17 cities across metros and tier 1, 2 and 3 cities. All consumer segments, except Rural Aspirers were covered by the survey.

Consumer Durables

Over 5,000 consumers were interviewed for the Consumer Durables category. Only consumers who had purchased one or more consumer durables in the past one year were chosen as the respondents.

The consumer research was carried out in 14 cities across metros and tier 1, 2 and 3 cities. All consumer segments, except Rural Aspirers and Strugglers were covered by the survey.

Apparel

For Apparel, around 3,500 consumers were interviewed. Only consumers whose spending for apparel was greater than Rs. 500 in the past 6 months were chosen as the respondents.

The consumer research was carried out in 14 cities across metros and tier 1, 2 and 3 cities. All consumer segments, except Rural Aspirers were covered by the survey.



Note to the Reader

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For Further Reading

The Boston Consulting Group has published other reports on this topic which may be of interest to senior management. Recent examples include:

Building a New India: The Role of Organized Retail in Driving Inclusive Growth

A report by The Boston Consulting Group, published with the Confederation of Indian Industries (CII), February 2011

India's Demographic Dilemma: Talent Challenges for the Services Sector

A Report by The Boston Consulting Group, published with the Confederation of Indian Industries (CII), December 2008

Winning Indian Consumers in 2011

A report by The Boston Consulting Group, July 2011

The Next Billions: Unleashing Business Potential in Untapped Markets

A report by the World Economic Forum, prepared in collaboration with The Boston Consulting Group, January 2009

2011 BCG Global Challengers: Companies on the Move

A report by The Boston Consulting Group, January 2011

Women Want More

Opportunities for Action in Consumer Markets, September 2009

Consumer Sentiment 2011: Navigating the New Consumer Realities

A report by The Boston Consulting Group, June 2011

The Art and Science of Retail Reinvention

A report by The Boston Consulting Group, September 2011

The Rush to Mobile Money

A report by The Boston Consulting Group, July 2011

Digital India: The \$100 Billion Prize

A report by The Boston Consulting Group, January 2011

Fast-Moving Consumer Goods: Accelerating Out of the Downturn

A White Paper by The Boston Consulting Group, April 2009

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