

The Indian Consumer

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The Indian Consumer

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The Questions...




- Who is the Indian consumer?
- How many are there in the market?
- Should global companies be interested in the Indian market?
- If so, what strategy approaches make sense?

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Thums Up: Taste the Thunder

- Thums Up launched in 1977 – strong tasting cola targeting young adults
- 1993: Coke buys Thums Up – 60% market share (no Coke or Pepsi in India at the time)
- What should Coke do with the Thums Up brand?
- Coke initially tries to kill the brand (30% share)
- 1998: Thums Up share down to 15%
- Coke repositions it as a “flanker” to fight Pepsi
- 15 years later, Thums Up re-emerges as the leading brand –outselling Coke!




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Thums Up: Taste the Thunder






Moral of the story:


- Understand your market!
- Never underestimate the power of local brands!
- Cookie-cutter approach to global marketing strategies won't work – especially in markets like India!


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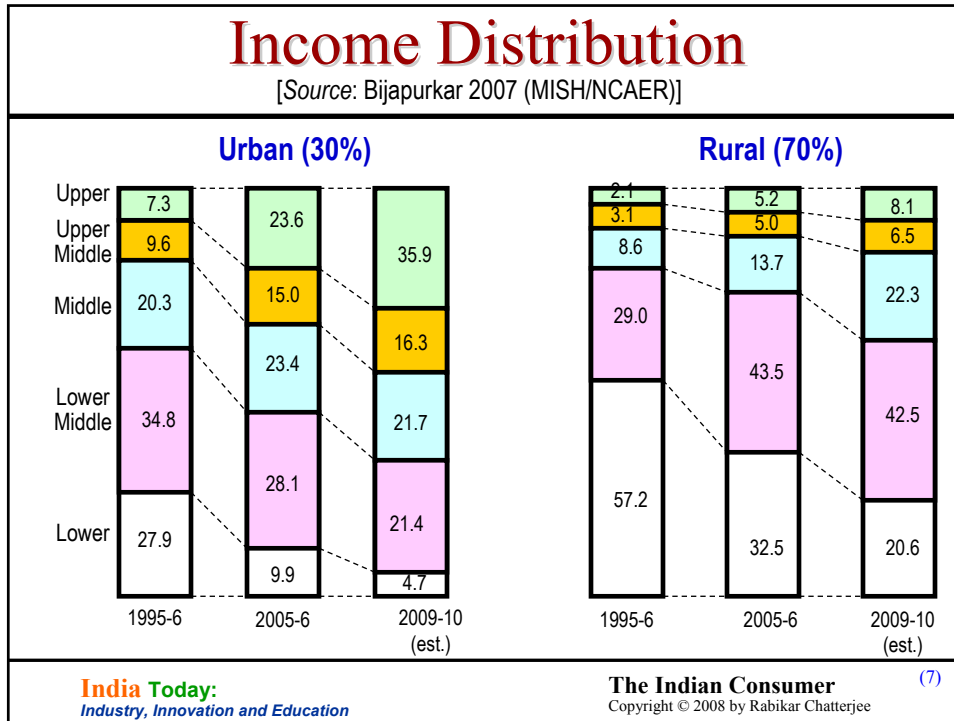
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Economic & Population Statistics			
[Source: 2008 CIA World Factbook]			
			
Economic/Population Measure	INDIA	CHINA	UNITED STATES
GDP (PPP) [\$ billions]	2,965	7,043	13,860
GDP (off. Ex.) [\$ billions]	894	2,879	13,750
GDP Real Growth Rate	8.5%	11.4%	2.0%
GDP per capita (PPP) [\$]	2,700	5,300	46,000
Population below poverty line	~25%	10%	12%
Distribution of Family Income (Gini)	37	45	47
Population Size [millions]	1,130	1,322	301
Population Growth Rate	1.6%	0.6%	0.9%
Population Median Age	24.8	33.2	36.6


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Key Takeaways...	
<ul style="list-style-type: none"> ▪ Huge market in terms of numbers ▪ The average customer is young... ▪ But with <u>very</u> low disposable income (certainly by Western standards) ▪ Massive numbers in the Bottom of the Pyramid <p><i>However,</i></p> <ul style="list-style-type: none"> ▪ Static snapshot masks dynamics and heterogeneity ▪ Need <i>qualitative</i> insight into the Indian consumer 	<p> The Indian Consumer ⁽⁶⁾ Copyright © 2008 by Rabikar Chatterjee</p>

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Market Segmentation: Income Based

Population by income	Price/Performance Segment	National Income Share	Consumption Exp. Share	Per Capita GDP Indexed
Top 10%	Premium	34.1%	30.0%	100
Middle 30%	Popular	36.1%	36.6%	35
Bottom 60%	Discount	29.7%	33.4%	14

[Source: Bijapurkar and Bhandari (2006)]

But...

- In competitive environment, innovation is breaking down the old price/performance rules
 - Premium/popular/discount structure no longer valid

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Value Orientation-Based Segmentation

[Source: Bijapurkar 2007 (NCAER)]

Segment	Value-orientation	% households	Ownership of durables
Rich	"Benefit Maximizers"	3%	Most cars, PC's
Consuming Class	"Cost-Benefit Optimizers"	36%	Bulk of branded consumer goods; 70% of 2-wh. / ref. / wash m/c
Climbers	"Cash-Constrained Benefit Seekers"	37%	At least 1 major durable mixer /sewing m/c / TV
Aspirants	"New Entrants into Consumption"	16	bicycle / radio/ fan
Destitute	"Hand-to-Mouth Existence"	8%	Not buying

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nano

Tata Nano



- Product and process innovation (34 design patents)
- Price Rs. 100,000 (\$2000)
 - Impact of cost pressures?
- 623 cc 2-cylinder engine
- 51.7 mpg (city), 61.1 (hwy)
- Eco-friendly initiatives
 - Electric drive train
 - Compressed-air engine (with MDI of France)

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Sources of Heterogeneity*

- Consumer classes with different value orientation (just discussed)
- Urban – Rural (different stages of evolution)
- Age – two cohorts with distinct ideologies
- Geographical differences (across states) – economic conditions, government policies, cultures, attitudes...
- Five economies with different mindsets – IT, Manufacturing, Services, Agriculture, Government

*Rama Bijapurkar (2007). *We are Like That Only: Understanding the Logic of Consumer India*. New Delhi, India: Penguin Group

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Haldiram's Group: Marketing Mix Decisions

- Story of local brand getting it right:
 - “Our brand is nowhere near the dominance of Haldiram's” (Managing Director of Frito-Lay India)
 - “Haldiram's caters to the Indian palate, which is its primary drivers of success” (AT Kearney associate in India)
- Haldiram's Marketing Mix Decisions
 - Product
 - Wide product range (51 varieties of “namkeens” (salty snacks) from one manufacturing unit alone!), customized for local tastes
 - First Indian company to brand namkeens
 - High quality and hygiene standards
 - Packaging to increase shelf life from less than a week to more than 6 months
 - Pricing
 - Competitive with huge unorganized market
 - Launched in multiple sizes, including 30 gram (1 oz.) packets @ Rs. 5 (10 c)

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Haldiram's Group: Marketing Mix Decisions

- Haldiram's Marketing Mix Decisions (continued):
 - Place (Distribution)
 - Strong network: C&F agents → distributors → retailers (nearly 1 million)
 - Margins to ensure goodwill
 - Company-owned showrooms, online sales (region-specific websites)
 - Promotion (Communications):
 - Low key until competition intensified
 - Tag line in advertising: “Always in good taste”
 - Attractive packaging (impulse purchase)
 - Shelf life: “Six months on the shelf and six seconds in your mouths”
- Results
 - Strong brand equity
 - Success breeds competitive intensity: Frito-Lay intensifies product innovation

It's a Different Market!*

- “Global” standards do not automatically apply
 - High volume low per capita income
 - Diversity – culture, rural/urban, etc.
 - Impact of own history and culture
 - Continuity with change
 - Clever, low-cost solutions
- India's market today is different from developed markets yesterday
 - Consumers exist in real time: TV and internet
 - Not a “virgin” market
 - Range of products and services available
 - Sophisticated advertising and branding strategies

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It's a Different Market!

- Mosaic of Tradition and Modernity
 - Many Indias being transformed by at different levels of intensity by different forces
 - Mixture of old and new
 - The videotaped arranged marriage interview!

Implication:

- Cannot simply fit India into a global strategy – need to develop strategy for the Indian market
- Multinational Corporation \longleftrightarrow Indian consumer

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The Nirma Story

- Started as a one-product , one-man company in 1969 – has grown to \$500 million company
- Challenged “conventional wisdom” by introducing laundry detergent to low-income market at less than 25% of the price of leading detergent
- Unilever’s initial reaction: “That’s not our market” – but soon realized value at BOP!
- Nirma’s share: 30% (detergent) & 15% (toilet soap)
- Over 2 million retail outlets – reach remotest village
- Innovation to provide quality products at best possible price – product and process innovation

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Coca Cola India's Rural Strategy

- Based on “Availability, Affordability, Acceptability”
 - Availability:
 - Hub and spoke distribution: hubs to small towns to villages
 - Auto and cycle rickshaws, hand carts for delivery to villages
 - Affordability
 - 300 ml bottle often shared by 2 people, 20 cent price too high
 - 200 ml bottle introduced at Rs. 5 (10 cents) per bottle
 - Acceptability
 - Extensive marketing efforts tailored to village culture (participation in weekly markets, etc.)
- Result: in 2 years (2001-2003):
 - Rural penetration: 9% → 25%
 - 35% volume from rural market

Bottom of the Pyramid Market*

- Significant purchasing power, given size
- Access to BOP
 - Innovative distribution methods for rural BOP
- Brand-conscious (and, of course, value-conscious)
- BOP market getting better connected
- BOP consumers accept advanced technology

*C.K.Prahalad (2006). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. Philadelphia, PA: Wharton School Publishing

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Innovation for BOP Markets

- New price/performance envelope
- Hybrid solutions – blending advance technologies with infrastructure
 - Process innovation critical – infrastructure, access
- Sustainable, resource-saving, development
- Product development should focus on functionality
- Customer education
- Robust design to withstand harsh environment

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ITC's 'e-Choupal'

- 'e-Choupal' responds to unique problems of Indian agriculture – fragmented farms, weak infrastructure and the involvement of numerous intermediaries
- Leverages IT to virtually cluster all the value chain participants
 - delivering same benefits as vertical integration in mature agricultural economies like the USA
- 'e-Choupal' makes use of the physical transmission capabilities of current intermediaries while disintermediating them from the chain of information flow and market signals
- Village internet kiosks managed by farmers themselves
- Farmers benefit through enhanced farm productivity and higher prices – ITC benefits from lower net cost of procurement (despite offering better prices to the farmer) by eliminating costs in the supply chain that do not add value

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Consumption Growth Drivers

- Visible increase in consumption
 - Large consumption base springboard for more consumption
- Increased levels of aspiration
- Increased consumer confidence
- Increased comfort with borrowing
- Post-liberalization children come of age
- Self-employed: 60% urban and 90% rural households
- Rural India moves beyond agriculture
- Technology-driven connectivity

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In Summary...

- The Indian consumer is hard to define
 - cultural contradictions and heterogeneity
- Per capita incomes are tiny...but the sheer size of the market cannot be ignored...
- ...and neither can the trends, across the segments
- Companies must develop India strategies that are consumer-centric
 - Cannot tweak global strategies to fit the Indian market
- Innovation is key... “zero-based” thinking!

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