

CONSUMER MARKET IN INDIA

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ABSTRACT:

A rapidly expanding middle class with high aspirations and a growing appetite for quality goods make India an attractive investment destination for consumer goods companies. With the growing economy, not only the per capita income is increasing but number of households in this segment is exploding in double digit growth rate. The rich are becoming richer and richer leading to the economic divide. The young population prefers to have working partner which increases dependency on having all the comforts at home. With both husband and wife working leads to increased buying power and the desire for high quality goods, comforts and luxury especially in the metros. This trend is now going to rural areas as well, as opportunities are increasing and companies are targeting rural India which is where majority of India lives.

Key words: Economy, Quality, Rural

1.1 INTRODUCTION

India is a big country with 28 states, over one billion people. There are a total of 122 languages and 234 mother tongues however officially there are 22 languages. From the market perspective, people of India comprise different segments of consumers, based on caste, class, status, and income. India is one of world's fastest growing economies. Apart from China, no other country has as high an economic growth rate as India. This country offers several economic advantages to its nationals as well as foreign investors. India's economic boom has been made possible mainly through its information technology and outsourcing business. India's rise as an Asian economic powerhouse has been quite remarkable. Economic conditions in India are now favorable for a wider cross section of people. An important and recent development in India's consumerism is the emergence of the rural market for several basic consumer goods. Three-fourths of India's population lives in rural areas, and contribute one-third of the national income. This rural population is spread all over India, in close to 0.6 million villages. Rural Indians are developing desire for packaged foods, personal care products, consumer durables and IT products, two- and four-wheelers, and fashion accessories. Over the last five years, some consumer product companies have recognized the potential of rural markets and invested time and resources to tap into this opportunity - understanding and segmenting the consumer, based on their spends and lifestyles.

1.2 Background

India was a highly protected, semi-socialist autarkic economy till 1991. There were numerous structural and bureaucratic impediments in setting up a new business and foreign investment was not welcomed. The opening up of the Indian economy in 1991, unleashed the latent entrepreneurial talent of the Indian and in less than two decades India has established itself as the next economic superpower of the world India has come a long way since the economic reforms in 1991, moving from rates of 5% into the orbit of 7-9% growth rates. Indian Economy has covered a long ground since it was liberalized in 1991. Today, India has the fourth largest economy in terms of purchasing power parity (PPP) behind only the USA, China, and Japan. It is slated to overtake Japan and become the

third major economic power in the next ten years. India is also one of the few markets in the world which offers high prospects for growth and earning potential in practically all areas of business. Indian economic growth has been among the fastest in the world in the recent years. However, how many of us really know the scope and scale of this story and how it pans out over the next 10 years? By 2020, India's GDP is likely to quadruple from the current \$1.1 trillion to about \$4.5 trillion. Per capita income is likely to triple from the current approximately Rs 50,000 to over Rs 1.5 lakh. The number of households with income of more than Rs 16 lakh will be over 18 million, while the number of middle class households (income between Rs 1.5 lakh and Rs 16 lakh) would grow by 50% to 180 million. An important and recent development in India's consumerism is the emergence of the rural market for several basic consumer goods. Three-fourths of India's population lives in rural areas, and contribute one-third of the national income. This rural population is spread all over India, in close to 0.6 million villages.

1.3 Theory:

India is a lucrative market even though the per capita income in India is low but it remains a huge market, even for costly products. The market can be classified based on the income groups and their spending or buying capabilities.

Consumer Classification:

According to National Council of Applied Economic Research (NCAER) there are 5 consumer classes that differ in their ownership patterns and consumption behavior across various segments of goods. (Source NCAER)

Consumer Classes	Annual Income in Rs.	1996	2001	2007	Change
The Rich	Rs. 215,000 and more	1.2	2.0	6.2	416%
The Consuming Class	Rs. 45- 215,000	32.5	54.6	90.9	179%
The Climbers	Rs. 22-45,000	54.1	71.6	74.1	37%
The Aspirants	Rs. 16-22,000	44	28.1	15.3	-65%
The Destitute	Below Rs. 16,000	33	23.4	12.8	-61%
Total		164.8	180.7	199.2	21%

Consumer Classes Annual Income in Rs.

Consumer Classes	Annual Income in Rs.
Obscenely Rich	Rs. 1000L and more
Sheer Rich	Rs 500L to 1000L
Ultra Rich	Rs.100L to 500L
Super Rich	Rs. 50L to 100L
Rich	20L to 50L
High Income	Rs.10L to 20L
High Middle Income	Rs.5L to 10L
Employed Middle Income	Rs. 2L to 5L
Employed Lower Income Group	Rs 1L to 2L
Skilled Below	Rs.1L
Semi Skilled Below	Rs.1L
Un Skilled / Labour	Below Rs.1L

Category of Workers Minimum Wages per Day (in Rs) Minimum Wages per Month (in Rs)

Category of Workers	Minimum Wages per Day (in Rs)	Minimum Wages per Month (in Rs)
Unskilled	234	6084
Semi Skilled	259	6734
Skilled	285	7410
Non Matriculate	259	6734
Matriculate	285	7410
Graduate	310	8060

The minimum wages as per Delhi Govt. order for the year 2011 are mentioned above to validate the income groups

Definition of Unskilled, Semi-skilled, Skilled & Highly Skilled Workers:

(i.) Unskilled: An unskilled employee is one who does operations that involve the performance of simple duties, which require the experience of little or no independent judgment or previous experience although familiarity with the occupational environment is necessary. His work may thus require in addition to physical exertion familiarity with variety of articles or goods.

(ii) Semi-skilled: A semiskilled worker is one who does work generally of defined routine nature wherein the major requirement is not so much of the judgment, skill and but for proper discharge of duties assigned to him or relatively narrow job and where important decisions made by others.

(iii) Skilled: A skilled employee is one who is capable of working efficiently of exercising considerable independent judgement and of discharging his duties with responsibility. He must possess a thorough and comprehensive knowledge of the trade, craft or industry in which he is employed.

(iv) Highly Skilled: A highly skilled worker is one who is capable of working efficiently and supervises efficiently the work of skilled employees. Number of deprived households (with income below Rs 1.5 lakh) is likely to be reduced by almost 25% to 100 million. Indian consumption is likely to increase 3.7 times to about Rs 113 trillion, with discretionary expenditure likely to increase significantly. According to our estimates, the education sector will grow 5.7 times, domestic Pharma and healthcare six times, media and entertainment five times and organized retail 6.3 times. The automobile sector is likely to grow 4.8 times, while urban premium housing will grow 6.5 times. By 2020, it is expected that total savings to be about \$1.4 trillion — more than our current GDP. The massive growth in savings will propel a 5.3 times growth in banking, 4.7 times in broking, 5.7 times in asset management and 4.7 times

in life insurance. There are three key risks to achieving and managing this growth. Execution of planned infrastructure projects remains an area of concern, inflation is another. The third risk to growth is the inclusion of lower income segments. With a Gini index of 36, the income disparity levels in India are amongst the highest in the world. It's important that the bottom of the pyramid participates in the growth process.

2. ANALYSIS

The Growing Consumer house holds

The growing consumer segments are following:

The Rich

The rich have income greater than INR 20L per annum. Total household having such incomes are 1,058,961. These people are upwardly mobile. Some of them in this category are Double Income No Kids (DINK) households. They spend more on leisure and entertainment-activities than on future looking investments. Across the category, backgrounds are distinctly middle class. They aspire, therefore, to attain the super-rich status.

The Super Rich

The Super Rich have income greater than INR 50L per annum. There are less DINK families here than in the rich category. The Super Rich are mainly professionals and devoted to consumerism. They buy many durables and are status conscious.

The Ultra Rich

The Ultra Rich have income greater than INR 500L per annum. There is no typical profile of the ultra-rich. There are some DINK households of middle-level executives. Some single earning households are of first generation entrepreneurs. Some rich farmers, who have been rich for a long time, belong to this category.

The Sheer Rich

The Sheer Rich is made up by households having income exceeding INR 55, 00,000/- per annum. They do not have a homogenous profile. There are joint families as well as nuclear families in this category. They consume services greatly. They own multiple cars and houses. They aspire to social status and power.

The Obscenely Rich

The Obscenely Rich is made up of households having income exceeding INR 1000L per annum. They are first-generation entrepreneurs who have made it big. Some of them are techies. A variety of people belong to this category. They are just equivalent to the rich in the developed countries. They crave for exclusivity in what they buy. Most premium brands are relevant to them.

The High Income Group

The high income households having income exceeding INR 10L per annum. They are the young generation people trying to make it big in life and also acquire various comforts for the house hold and family.

The High Mid Income Group

The high Middle income households having income exceeding INR 5 L per annum. They are the young generation people who have just got married and trying to settle in life or establishing the house hold. Their requirements are more of basic necessities. This population can also be termed as aspirants and in a young country this number is bound to grow by leaps and bounds. About three quarters of the Indian population are in the rural areas and with the growing middle class, specially in the Indian cities, the spill over effect of the growing urban middle class is also felt in the rural areas. The Indian rural market has been growing at 3-4% per annum, adding more than 1 million new consumers every year and now accounts for close to 50% of the volume consumption of fastmoving consumer goods (FMCG) in India.

The market size of the fast moving consumer goods sector is projected to more than double to US\$ 23.25 billion by 2010 from the present US\$ 11.16 billion. As a result, it is becoming an important market place for fast moving consumer goods as well as consumer durables. Over the years, as a result of the increasing literacy in the country, exposure to the west, satellite television, foreign magazines and newspapers, there is a significant increase of consumer awareness among the Indians.

Today more and more consumers are selective on the quality of the products/services. This awareness has made the Indian consumers seek more and more reliable sources for purchases such as organized retail chains that have a corporate background and where the accountability is more pronounced. The consumer also seeks to purchase from a place where his/her feedback is more valued. Indian consumers are now more aware and discerning, and are knowledgeable about technology, products and the market and are beginning to demand benefits beyond just availability of a range of products that came from „trusted“ manufacturers. The Indian consumers are price sensitive and prefer to buy value for money products.

2.1 Changing Trends In Indian Consumer Behavior

Urbanization is taking place in India at a dramatic pace and is influencing the life style and buying behavior of the consumers. The working urbanites are depending more on fast and ready-to-serve food, they take less pain in traditional method of cooking and cleaning.

Bulk Purchasing

Bulk purchases from hyper stores seems to be the trend these days with purchasing becoming more of a once-a-week affair, rather than frequent visits to the neighborhood market/store/vendor. The popular growing shopping trend among urbanities is purchasing from super markets to hyper stores.

Trendy Lifestyles

The current urban middle and upper class Indian consumer buying behavior to a large extent has western influence. There is an increase in positive attitude towards western trends.

The Indian consumer has become much more open-minded and experimental in his/her perspective. There is now an exponential growth of western trend reaching the Indian consumer by way of the media and Indians working abroad. Foreign brands have gained wide consumer acceptance in India, they include items such as Beverages ,Packed food ,Ready to eat food ,Pre-cooked food, Canned food ,Personal care products ,Audio/video products ,Garment and apparel ,Footwear ,Sportswear ,Toys, Gift items Foreign brands vie increasingly with domestic brands for the growing market in India.

Foreign made furniture is well accepted by the Indian consumers. Malaysian, Chinese, Italian furniture are growing in popularity in India. Indian consumers have also developed lifestyles which have emerged from changing attitudes and mind sets; exposure to western influences and a need for self-gratification. Beauty parlors in cities, eateries, designer wear, watches, hi-tech products are a few instances which reflect these changes.

2.3 Recommendations: Marketing Strategies:

1) Online Marketing

A study by the Confederation of Indian Industry (CII) and the International Trade Centre predicts that e-commerce activity in India will rise to INR 4800Cr., of which travel itself will constitute 50%.(source <http://www.commercewiki.com/tag/market-size/>) Currently, the products Indian consumers are buying through online are greeting cards, clothes, CDs/VCDs/DVDs, cassettes, books, magazines, medicine and educational material.

2) Celebrity Influence

This is an important tool which is able to influence Indian consumer buying behavior. In India, celebrities are being increasingly used in marketing communication by marketers to lend personality to their products. With the visual media becoming more popular the use of celebrities in the TV media has increased. Celebrities create headlines. Their activities and movements are being closely watched and imitated. What they endorse sell like hot cakes. It is

not surprising therefore that using celebrities in advertisements has become common practice. In India especially, it is not difficult to look for the reasons as to why companies are increasingly using celebrities. Indians always love their heroes and heroines.

3) Quality Oriented

Outlets Indian consumers looking for quality choose expensive brands as they feel that price is an indicator of quality. However, in the absence of well known brands in selected product range, consumers are likely to take cues from well established retail outlets hoping that these outlets carry quality products.

4) Freebies

Indian consumer buying behavior is influenced by freebies. Freebies are consumer products given free of charge as gifts to purchases of selected products above a certain value. TVs, washing machines, refrigerators, and readymade clothes are some of the product categories in which freebies are given to Indian consumers. Freebies generally comprise tooth paste, soaps, detergent, cooking oil etc.

3. CONCLUSION

Consumer Spending Behavior: Consumer spending can be categorized into regular spends and lifestyle spends. Regular spending includes the basic necessities of life, while lifestyle spending includes spending on a computer, internet, car, cell phone, etc. Analysis of consumer spending in the past 10 years reveals that the average consumer has been spending on an increasing number of different goods. There are a number of factors affecting the consumer spending pattern in India; these include growing income levels resulting in more disposable income with individuals, changing attitudes towards consumption, changes in prices, introduction of new products, availability of credit such as loans, mortgages and credit cards, rising aspiration levels, increased literacy, growing brand consciousness and rapid urbanization. Spending habits are different for people belonging to different sections of society.

For instance, people belonging to the middle class consider basic necessities and education and spending toward the future of their children as their top priorities, followed by lifestyle goods. The rich class spends more on luxury goods and international brands. The super rich class spends on ultra luxury goods. It is observed that as disposable income increases, people prefer more of branded goods, shift to processed foods, and the expenditure on food, beverages, tobacco, and transport and communication also increases. A comparison of consumer spending habits in 2002 with those in 2007 revealed that expenditure on food, clothing and personal care has remained more or less constant, but expenditure on entertainment has increased. Shopping habits of Indians are changing due to their growing disposable income, relative increase in the younger population, and the change in attitudes towards shopping. The emphasis has changed from price consideration to design, quality and trendiness. The desire to look and feel good is also guiding factor for customers while making their purchase decisions. Growing disposable income is also propelling demand for consumer durables and eating in restaurants.

Consumer spending is an important factor that affects the economic growth and development in a country. In the future, India and China are projected to be the powerhouses of Asia in terms of growth in consumption, wages, and GDP. Consumer spending can be categorized into regular spends and lifestyle spends. Regular spends include grocery, eating out, books and music, personal care items, consumer durables, savings & investment, clothing, footwear, accessories, movies and theatre, entertainment, vacation, and home textiles. Lifestyle spends include payment for household help, gifts, furniture, computers/laptops, mobile phones, and Internet connections. The liberalization of the economy in 1991 has had a significant impact on the nature of spending among consumers in India. The portfolio of spending categories for the average Indian has increased from 1991 to 2007. Major factors influencing the increase in spending categories include rise in disposable incomes, increasing number of dual-income nuclear families and changing attitudes toward consumption. The attitude of people toward shopping has changed from it being a regular chore to one that provides an enriching experience. According to Ravi Raheja, MD, Raheja Group, "Consumers don't want to experience shopping, they want to shop for experience."

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