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India's consumer spending set to boom

India's president, Ram Nath Kovind, this month said the country is striving to become the world's third-largest consumer market by 2025



A customer at a clothes store at a shopping mall in Kolkata, India. Consumer spending is set to grow rapidly over the next few years. Rupak De Chowdhuri/Reuters

Sanjay Naik, 26, a farmer in Karnala in the state of Maharashtra in western India, is planning to buy his first motorcycle.

He'll be the first in his family to own a vehicle. He was also the first to buy a smartphone a few months ago.

"Hopefully, in a few years I'll buy a car," he says.

Consumer spending is on the rise in India. And there are ambitions for it to expand dramatically over the coming years. India's president, Ram Nath Kovind, this month said the country is striving to become the world's third-largest consumer market by 2025. The country is currently ranked eighth largest consumer market, according to the World Bank.

"The outlook for India's consumer market looks promising," says Kamaljit Anand, the managing partner and regional head, Europe and mainland Asia, at KiE Square, an analytics firm. "There are several factors, including higher disposable incomes, and societal change is also towards consumerism."

The demographics are certainly favourable. India has a population of 1.3 billion and half of those people are under the age of 25. Incomes are ticking up. India's per capita income is still very low compared to developed countries, but it grew by close to 10 per cent to 103,219 rupees (Dh5,584) in the financial year to the end of March compared to the previous year. Boston Consulting group projects that total consumption spend in India will rise three fold to \$4 trillion rupees by 2025, growing at more than double the global rate over the coming years.

"India is probably now the most aspirational country," says Sridhar Gundaiah, the founder and chief executive of StoreKing, an online shopping platform with a network of 50,000 retailers in small towns and villages across 10 states in the country. Urbanisation is also helping to drive consumption growth. The rural populations are also seeking to replicate the lifestyles of those in the cities, as they become more exposed to these trends and are increasingly targeted by consumer goods companies, Mr Gundaiah says. The changes he has seen in consumption patterns in the past decade have been "dramatic", he says.

"As people jump a class, they want status symbols to flaunt," says Mr Gundaiah.

Brands such as Zara, Samsung and Nestle are among those that have flocked to India to tap into rising consumer spending.

"Overall affluence is growing in India," says Anupam T, the vice president of Oberoi Mall, one of Mumbai's upmarket shopping centres, which houses stores including Levi's, Tommy Hilfiger, and Nike. He says these days many Indians have no qualms about spending upwards of 8,000 rupees on a pair of trainers, whereas 10 years ago that was not the case.

"We are clearly moving towards becoming a huge market," says Easwar Krishna Iyer, the associate professor for marketing at Great Lakes Institute of Management in Chennai. "That we would become the third-largest market is just because, as things stand now, there doesn't seem to be another country that can ramp up as fast as we can other than the United States and China."

India gaining increased access to electricity is also helping to drive demand for electronic goods, he adds.

It was the economic liberalisation of the 1990s in India that set the ball rolling and opened up the market, leading to a number of foreign brands entering the country and creating more choice for consumers. Foreign direct investment rules have been further relaxed in recent years.

But there are still a number of challenges. While India is clearly a growth story and its economy has expanded rapidly over the past decade, there is still a very large percentage of the population that lives in poverty. There are 224 million who live below the \$1.90 per day poverty line in India, according to the World Bank.

There are estimates that more than 40 per cent of Mumbai's population live in slums. Most of those residents would not even be able to gain access to the financial capital's swanky malls, let alone be able to afford to shop in the big-name stores.

"This situation is going to change only marginally as the global markets suffer from income and wealth divide and it is going to be no different for India," says Mr Anand. "The income divide is likely to continue and the majority consumption spending would come from the the top half."

He says there are disparities that need to be addressed to allow more of the population to increase their real incomes.

"Traditional sectors like agriculture and industry need to show strong growth, vis-a-vis the services sector, for the growth story to be a pan-India story," he says. "Currently income disparity exists geographically, ethnographically and socio-economically and, if not handled well, can become a boiling point of next decade."

He points out that the growth of India's consumer market has not been as great as might have been expected earlier in the decade.

For example, although Mr Naik is planning to buy a motorcycle, he would have to take a loan to make the purchase and the repayments would end up eating into a large portion of his income over the next couple of years.

Higher fuel and food costs have already hit India's poor hard, with inflation spiking to a 14-month high of 4.43 per cent in May. This month, the central bank, the Reserve Bank of India, hiked interest rates by 25 basis points to 6.25 per cent because of mounting concerns about inflation and many expect another hike this year. This increases borrowing costs.

“In a nutshell, the interest rate play and creation of income opportunities would be the most important macroeconomic spectacle in the next decade if consumption growth in the rural and slum economy is to be sustained,” says Mr Anand.

The Indian government's controversial demonetisation move in November 2016, which saw the two highest-value banknotes banned, sapping liquidity, and the introduction of a new goods and services tax last year impacted consumer spending, but he says India is now emerging from this.

Retailers are upbeat and say they have seen their customers become more and more affluent over the years, and they only expect that trend to continue.

“Social media has a very important role to play here, as the consumer wants to fit in that space,” says Sharad Venkta, the managing director and chief executive of Toonz Retail India, which has more than 100 children's clothing stores across the country. “And women have started gaining more power now, and have been influencing their families and society, both in urban and rural parts of the country.”

The rise of internet use in the country, with Indians having access to cheaper smartphones and data, is boosting the e-commerce market in the country, giving people more opportunities to spend.

“This is also fuelling the growth and enabling a lot of the compulsiveness in the Indian consumer to start buying goods,” says Mr Gundaiah. “Credit is also fuelling consumption. India is just picking up. We have mobile wallets, credit cards, greater access to the banking network. All this is putting a lot of money into people's hands. The mindsets are changing. The millennials don't think about saving – they think about spending.”

The potential of the e-commerce sector is reflected in the fact that US retail major Walmart last month announced that it was buying a majority stake in the Bangalore-based online marketplace Flipkart, the country's homegrown answer to Amazon.

“Indian consumerism is already here,” says Mr Iyer.

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