Thoughts

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Indian consumer trends for 2018

NYMEX consulting

Foreword

India continues to be the 'land of promise' for consumer businesses with the expenditure on consumption growing regularly year after year. In the largely mixed backdrop of growth in consumer markets across the world, India remains a bright spot. However, despite the obvious potential and promise held by these sectors, the last two years have been challenging for the consumer business.

This has been due to sluggish rural demand and the organised retail business being subject to strain because of the growth of the 'same store' format across categories. Organised retail has however grown buoyed by the growth of new stores and Ecommerce.

On the whole, rapid macroeconomic, demographic and lifestyle shifts in the country clearly point towards exponential growth in the packaged goods industry. These shifts, bolstered by policy and regulatory changes, have the strong potential of taking India towards its goal of becoming the fifth-largest consumer market over the next decade.

India's robust economic growth and rising household incomes in the country are expected to increase consumer spending to USD 3.6 trillion by 2020, with the maximum consumer spend likely to occur in the food, household and transport and communication segments. India's share of global consumption is also forecast to expand to more than twice its current levels (to 5.8%) by 2020.

Over the next five years, India's retail market is expected to reach USD 1 trillion, fuelled by a significant growth in organised brick-and-mortar retail and Ecommerce. The Ecommerce market is expected to reach USD 125 billion in terms of its Gross Merchandise Value (GMV), growing at the rate of 31%, and it is estimated that the packaged consumer goods sector will grow at the pace of 18% and cross the USD 100 billion mark by 2020.

Evolution of the consumer landscape

Indian consumers are changing at a pace far greater than that foreseen by most people. This has been the result of several drivers, whose impact has strengthened exponentially over the years. These include:

Changing incomes and demographic profiles of consumers -

The key plus factor in the growth in India's population is clearly its young demographic. Today, around 47% of the population is below the age of 25 years and the median age is around 27 years. While this means that consumer demand should keep growing for many years to come, thereby propelling India's GDP, it also implies that the kind of products, services and experiences available today will undergo a sea change to keep pace with the outlook of the millennials.

The second key feature about India's growing population has been rising household income levels. This has been on account of the steady GDP growth in the country. The rise in income levels is a trend not just restricted to metros, but has spread across tier 2 and 3 cities as well. With growing incomes, people's propensity to spend is now expanding these smaller cities, which are turning into the new power centres of demand. However, the expectations of these consumers on products, price points and the consumption experience differ from those living in the metros. Therefore, the model for serving consumer demand in the metros may not always work in tier 2 and 3 cities.

Growing access to the internet and greatly increased use of smartphones -
India has witnessed a dramatic growth in the number of mobile phone users in the recent past.

Equally impressive has been the increase in internet access. Although mobiles allow us to stay connected, it is the convergence of internet access and smartphones that has resulted in tectonic shifts in consumer awareness, outlook and behaviour. Smartphones have been rapidly transformed from being just hand-held telecommunications devices to being a window to the world and are now a means of expressing one's opinion and individuality. It's also become the new retail store front.

Growing health and environmental consciousness –
There have been wide climatic changes on our planet.

Some of these have been due to natural causes and others the result of deforestation and atmospheric emissions from industry and transport, which have led to gases and aerosols being retained in the atmosphere. Although most of this has been an ongoing process for years, concerns and an outcry have come to the forefront only recently with the impact of these factors becoming far more perceptible than in earlier years. Weather patterns have also changed due to this. Smog is now a common phenomenon in most big cities. Health-related problems such as the growing incidence of respiratory disorders, skin diseases, food- and water-borne diseases, caused by the growing pollution of the air we breathe and the food and water we consume are also on

the rise. This is driving consumers to become more conscious about what they are buying. In the past, browsing through the list of ingredients in fine print on packs was not common.

Now, more and more consumers are giving equal, if not more importance, to the quality and source of ingredients than they did earlier. Regulations on product and environmental safety are becoming stronger by the day.

Technological innovation -

Today, businesses are using technology in almost every sphere. However, most people view technology as a back-end support or at best an enabling platform.

Consequently, most business managers have not devoted their time to gaining even a basic appreciation of the ways in which emerging technology can solve some of their customers' problems. This mind-set is about to change. With the market cap of new age companies such as Amazon, Alibaba, Google (Alphabet) and Facebook, to name a few, having surpassed a significant number of large traditional players, the importance of the new role played by technology in disrupting long- held business models is now being acknowledged. Technology can help a business serve customers in a manner that was unimaginable before. From mobility, analytics, 3D printing, the Internet of Things, artificial intelligence to machine learning, technology is bringing about revolutionary changes in creation, delivery and consumption of products.

Rising complexity of decision-making for consumers -

Over the years, the choices offered to consumers have gone through the roof. In the past, they would walk into a small kirana store and quickly buy what they needed. The number of brands and variants available were limited. If they needed help, advice was available from the owners of these shops; decisions were based on input from a trusted source, and the risk of the consequences of poor decision-making was low. Therefore, the cognitive load of a wrong buying decision was minimal, and consequently, making a choice was simple. All that have changed.

With a rapidly growing economy and free trade, the number of products available has increased by leaps and bounds. While consumers have a huge variety to choose from, they also have many more product categories on offer. Earlier, one product served multiple consumer needs, now we have various brands, and within these are numerous variants and pack sizes catering to sub-segments with refined needs.

With the vastly improved quality of brands offered, making a choice is becoming increasingly difficult for most consumers. What compounds this is the fact that modern formats of physical and online retailing do not offer the same level of help as the shop-owners of small stores. While lack of variety caused consumers to move from small traditional stores to bigger and more modern ones, we now expect to see

complexity driving them towards sources that will help to simplify and ease their choice-related and purchase decisions.

Evolution of the consumer trends

Trend 1 - Where, what and how consumers' purchase decisions are changing

Where consumers buy, what they buy, how they buy and how they pay is changing fast. Online shopping, which was earlier considered as just another fad by most traditional players, has emerged as a strong channel that is becoming the preferred option of more and more consumers.

When we look at the category-wise trendr foonline shopping behaviour, we see an openness to purchase products from a wide range of categories, including products retailing at high prices points (e.g., furniture, appliances, jewellery and watches). This indicates trust in and comfort with this new channel.

Digital payments are also gaining popularity in India as more and more shoppers become comfortable shopping online.

Trend 2 - How consumers want to be served is changing

As spending power increases, Indian consumers want better products and services. A plain vanilla product is no longer adequate for them. They want more and better features. Small and cluttered outlets are no longer where they want to shop. They want to buy from stores with modern and spacious layouts and ambience, with ample parking space. This has given birth to a need that extends beyond the product to how it is sold—the experience of buying, which is now a strong determinant of what and where consumers buy.

In the coming years, shoppers are likely to move towards products and experiences that are individualised to meet their unique needs. They may even want to engage at each step of the value creation process—from the concept and design of a product to its marketing and retailing. Businesses need to enable this with effective and innovative application of maturing technologies.

Trend 3 - Consumers are switching to healthy and environmentally safe options

Decision-related criteria used to assess products have moved from utility-based factors to include those that have an impact on consumers' health and the environment.

This has altered consumers' choices. They are now increasingly making healthy ones. This is evident not just in changes in their lifestyles, but also in their product-related

choices across food, skin care, hair care, cosmetics, home care, clothing and other categories.

Products that are perceived as being safe for the environment because they use reusable or bio-degradable materials, require minimal packaging, do not emit greenhouse gases, consume low energy or run on renewable energy are finding favour with the new age consumer.

Trend 4 - Convenience is being redefined.

Convenience has assumed new dimensions with the multiplication of product options for time-starved consumers. It's not just 'make it physically easier to find the product I want', but also 'make it mentally (cognitively) easier to find the product I want'. Earlier, convenience was sought on the location of stores, delivery facilities, ease in physically locating products and carrying these around in carts while shopping.

Now, convenience has more complex dimensions such as 'don't just provide me a plethora of options, but give me options that are relevant for my needs' and then 'make it cognitively easier to figure out the best one'.

Trend 5 - Social (virtual) networks are growing in size and influence

From extolling to trolling, online social media has placed power in the hands of the consumer. This is the new 'Power of One'. Consumers have found that they can drive massive change by simply associating with like-minded people. 'Crowd clout' is helping them demand and get what they want. They can 'up-vote' or 'down-vote' a product with just a click.

Good or bad experiences go viral in no time at all. And connecting with people for feedback has become really easy.

This empowers consumers to make better and informed choices and reject bad ones. For businesses, this can either propel or dispel their propositions very quickly

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