

India's Future Growth

A look at the drivers behind this emerging consumer and industrial powerhouse

Sant Sanganeria, Ultra International Ltd.^a



The fast-moving Indian consumer goods industry is valued at more than \$26 billion, while the fragrance and flavor industry is close to \$260 million. This industry touches the life of every Indian and therefore has perhaps the widest reach among all industries in the country.

The industry has tripled in size over the past 10 years, growing much faster than in recent decades. This has been facilitated by the many changes in the Indian economic and industrial landscape—reduced levels of taxation, easier import of materials and technology, reduced barriers to entry of foreign players, growing organizational maturity of Indian players, growth of media, and, of course, the growing affluence and appetite for consumption of the Indian consumer. The industry's potential to grow further and faster is awesome, given the low penetration of most categories and rising consumer incomes.

Though many changes have taken place over the past 20 years, the rate of change in the operating environment appears set to accelerate. The waves of change will be propelled by government policy, channel customers, technological advances, leaders of social change such as NGOs, consumer behavior and, of course, the players themselves. Change will therefore occur along many dimensions simultaneously, in a more compressed time scale at the intersection of these change vectors. This will produce significant, if unpredictable, outcomes for the industry. Over the last 20 years, almost all F&F companies have been riding the rising tide and almost all have prospered. That may, however, not hold true over the next 10 years. While the industry is set to grow at an even faster rate, in this round there could be as many losers as winners.

Challenges and Opportunities

Given the inherently essential nature of the products, the F&F industry is more or less immune to recessionary pressures—particularly in developing markets. The last decade has seen the sector grow by 11% annually. Robust GDP growth, opening up of rural markets, increased income in rural areas, growing urbanization along with evolving consumer lifestyles and buying behaviors have all been drivers of this growth.

The industry's potential to grow further and faster is awesome, given the low penetration of most categories and rising consumer incomes.

Over the next decade, all these changes will continue to impact the F&F industry favorably. As with any transformational change, here too there will be winners and losers. Competition in the industry is expected to further intensify with regional players targeting national expansion and more global players targeting the Indian market.

More players: While many leading foreign multinational companies have operated in the country for years, given liberal policies, the next decade will witness increased competition from tier two and three global players. In addition, larger Indian companies will continue to seek opportunities internationally and gain access to more global brands, products and operating practices.

Environment: Pressure from government, NGOs and consumers for efficient and prudent use of environmental and natural resources will increase. The industry will need to significantly increase its efforts to drive sustainability as a core business strategy.

Personnel: With accelerating growth in the sector in terms of more products, brands, categories, geographies of operations, etc., the demand for human capital is going to increase significantly—especially the higher quality of talent, which will be required to deal with the increasingly complex Indian market. Two key areas of emphasis will be attraction of the best available talent and ensuring development and retention of the acquired talent.

There will be many opportunities and challenges going forward, which require good understanding, innovation and skill in order to convert them into successful business.

Changing Consumers

India's consumer market, until recently, was broadly defined as a pyramid—a very small affluent class with an appetite for luxury and high-end goods and services at the top, a middle-class at the center, and a huge economically disadvantaged class at the bottom. This pyramid structure of the Indian market is slowly collapsing and being replaced by a diamond—a relatively large affluent

^aTurn to **Page 52** for a corporate profile of Ultra International.

The waves of change will be propelled by government policy, channel customers, technological advances, leaders of social change such as NGOs, consumer behavior and, of course, the players themselves.

class at the top, a huge middle class at the center and a small economically disadvantaged class at the lower end. The diamond represents increasing volume and value across all classes of the Indian consumer market.

The new Indian consumer: The Indian consumer market is drawing global attention not just because of its promise of sheer volumes, but also because of the tectonic shift happening in the nature of demand. Increasing urbanization, increasing incomes and rising aspiration for a better life, especially among the lower economic strata, are some of the factors reshaping the Indian consumer market. The result of this flux is a new Indian consumer who is more discerning than ever, ready to place his money on brand, quality and convenience, and eager to explore the organized retail market.

The youth factor: The Indian consumer market, which is primarily dominated by the young generation, is becoming increasingly sophisticated and brand-conscious. A typical upper middle class young consumer is beginning to look beyond the utility aspect of a product to seek intangibles such as brand and lifestyle statements associated with the product.

Luxury: A recent luxury brand survey conducted by The Nielsen Co. (www.nielsen.com) has ranked India third after Greece and Hong Kong in the list of most brand-conscious countries in the world. More than 35% of Indian respondents said they spend money on luxury brands.

The income-induced class movement happening across the rural and urban regions of India is forcing companies to reexamine their customer segmentation and product positioning.

Changing Markets

The Indian national economy and marketplace are undergoing rapid changes and transformation. A large number of reasons could be attributed to this, including globalization and the subsequent explosive growth of global trade and the international competition, and technological change.

Survival of the fittest: Technological competitiveness is making the Indian market—and also the global marketplace—cutthroat. In India, market success goes to those companies that are best matched to the current environmental imperatives. Those companies that can deliver what the people want and delight the Indian customers are the market leaders. Companies are operating in a marketplace where survival of the fittest is the law. In order to win, the companies are coming out with various new and evolving strategies because the Indian market is also

changing very fast. Indian and multinational companies are using their resources to capture the Indian market.

Buyer's market: The Indian market is no longer a seller's market. The winner is the one who provides value for money. A large number of companies have huge idle capacities, as they have wrongly calculated the market size and installed huge capacities. This has further contributed to converting the Indian market into a buyer's market.

Made for India: India is one of the biggest consumer markets and that is precisely the reason why India has attracted several multinational companies. These large companies have realized that to succeed in the Indian marketplace they need to hire Indian representatives who are much more aware of the Indian economic, political, legal and social realities. In the Indian marketing scenario, it is the *made for India* marketing strategies that work.

A typical upper middle class young consumer is beginning to look beyond the utility aspect of a product to seek intangibles such as brand and lifestyle statements associated with the product.

The Next Decade


Global corporations view India as one of the key markets from which future growth will emerge. The growth in India's consumer market will be primarily driven by a favorable population composition and rising disposable incomes. A study by the McKinsey Global Institute suggests that if India continues to grow at its current pace, average household incomes will triple over the next two decades and will become the world's fifth-largest consumer economy by 2025, up from 12th today^b.

Over the next decade, the F&F industry will grow at a base rate of at least 10–11% annually to become a \$780-million industry by 2020. Additionally, if some of the factors play out favorably within an environment of enabling policy and easing of supply constraints, 17% growth may be expected over the next decade, leading to an overall industry size \$1.3 billion by 2020.

The Indian industry is thus on a cusp of metamorphosis. The upbeat mood of the economy, the youthful exuberance of the population and its increasing integration with globalized lifestyles and consumption patterns will drive growth.

However, to assume that the Indian industry will become an exact replica of the global industry is the biggest fallacy companies can make. While the Indian consumer's appetite for value and brand-dominated goods and services is increasing, the cultural and regional framework characterizing them is intact.

Address correspondence to Sant Sanganageria, Ultra International Ltd., 304, AVG Bhawan, M-3, Connaught Circus, New Delhi 110001, India.

To purchase a copy of this article or others, visit www.PerfumerFlavorist.com/magazine. 

^b www.mckinsey.com/Insights/MGI/Research/Asia/The_bird_of_gold