INDIA’S PARTY IS JUST GETTING STARTED
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A LOOK AT INDIA’S MACRO-ECONOMIC DYNAMICS, RECENT CONSUMPTION LEARNINGS & FUTURE CONSUMER POTENTIAL

HIGHLIGHTS

• East matters again with the emergence of ‘Chindia’ (China and India)

• The Indian economy has been the strongest it has been in decades and is steadily emerging as a services economy.

• India today is endowed with the opportunity of a continent, with states in India now comparable to leading economies in purchasing power parity terms.

• From late 2011 through 2013, growth in demand and consumption in India slowed substantially. India too succumbed to the global slowdown.

• The gloom times give us good insight into how consumers think and act. The tough years shape consumers’ promotion and choice preferences as they selectively premiumize, continue to indulge on what matters to them, prioritize family togetherness, and save smartly.

• The Nielsen Consumer Confidence score is a good, directional lead indicator of FMCG sales albeit with a two quarter lag.

• The FMCG market in India will see a slightly accelerated growth in the coming quarters but distribution growth will continue to be the largest driver.

• While there are many tailwinds to GDP and revived investor sentiment, GDP growth for 2014-15 and 2015-16 is forecasted to be 5.5% and 5.7% respectively. Big policy reforms in manufacturing in the coming few quarters and a good monsoon in 2015 could further improve the estimates.
India is considered by many to be a high-growth economy full of long-term opportunity. The country’s thriving democracy and more than 1.25 billion consumers could change the shape of global consumption and economic growth in the next few years. While that may be true, the last few years have been fairly challenging both for the nation’s businesses and overall economy. Slowing GDP growth has quickly tempered high aspirations. In equal measure, consumers have wrestled with food price inflation, job cuts, rising fuel costs, political inaction and high interest rates. By late 2013, both corporate and consumer sentiment in India were at an all-time low.

2014 brought with it a changing tide. In late May 2014, Narendra Modi was sworn in as India’s 15th prime minister, just a few days after he had emphatically led the Bharatiya Janata Party (BJP) to a 282-seat majority in India’s lower house of Parliament. It was a thumping victory; no other political party had won as many seats since 1984, and India rejoiced. The era of coalition politics was over. Seemingly, the long-awaited political stability at the centre was finally here. Was this the trigger the economy was waiting for?

At the same time, other cues turned favourable. Passenger car sales turned positive after many quarters of decline, WPI (wholesale price index) inflation fell to a five-year low of 2.4% in September 2014, global crude oil prices fell to less than $80/barrel, and India’s consumer confidence index went back on top of the chart – standing at 126 points in third-quarter 2014. With these positive signs, Standard & Poor’s revised India’s outlook from Negative to Stable. The economy was shifting gears to a new normal.

But this is just a tip of the iceberg. To better understand where India is headed, we took a close look at India’s macro-economic foundation in relation to the world economy, as well as how Indian consumers have reacted to the economic ups and downs in recent years. The past informs the future, and marketers and business owners may want to factor the last few years’ lessons into their future plans. As India prepares for a new era of growth, it would help to know where consumption growth for fast-moving consumer goods (FMCG) is headed for the rest of 2014 and the next two years.

India seems to be turning the corner—politically, economically, socially and perceptually. India’s party is just getting started. And everyone is invited!
EAST MATTERS AGAIN

The economic pendulum is swinging back to the East. Through the end of the first millennium or the year 1000, most global trade and economic activity was concentrated in the Asian continent. However, as European colonization and industrialization expanded, the centre of economic activity shifted towards the West.

In a recent study, McKinsey Global Institute attempted to calculate how the ‘Economic Centre of Gravity’ moved since AD 1 and how it is likely to move until 2025.

WORLD’S ECONOMIC CENTRE OF GRAVITY HAS MOVED BACK EAST

Their calculations accounted for the planet’s total GDP, and found that in 1980, the global economy’s centre of gravity fell in the middle of the Atlantic. By 2008, however, with the strengthening of China and the rest of East Asia, that centre point drifted to a location east of Helsinki and Bucharest. Extrapolating growth in almost 700 locations across Earth, the institute projects the world’s economic centre of gravity will be located between India and China by 2050.
Many are crediting the global economy’s Eastward movement to “Chindia,” grouping the two emerging economic powerhouses China and India together. Chindia is home to over one-third of the world’s population and will likely continue to drive global economic growth over the next four to five decades. And the main reason for this will be the rapid urbanisation in both countries.
As people move into cities and many become richer, they fuel further economic growth. Most of this growth will not occur in much-hyped megacities, such as Mumbai or Shanghai, but in what the authors call “middleweight cities” like Foshan in China and Surat in India.

By the year 2030, every two in five people, or 40%, of the global middle class population will likely come from Chindia. And the projected increases in per capita income for these two countries reflect this upward momentum. With per capita GDP predicted to double in both China and India, the income gap with developed economies like the U.K. and U.S. will narrow considerably.
PER CAPITA INCOME GAP WILL REDUCE

PER CAPITA INCOME GROWTH: 2030 OVER 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita Income Growth: 2030 Over 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>5x</td>
</tr>
<tr>
<td>China</td>
<td>5x</td>
</tr>
<tr>
<td>UK</td>
<td>3x</td>
</tr>
<tr>
<td>USA</td>
<td>2x</td>
</tr>
</tbody>
</table>

PER CAPITA INCOME GAP VERSUS INDIA

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>12.25x</td>
<td>6.90x</td>
</tr>
<tr>
<td>China</td>
<td>8.75x</td>
<td>4.25x</td>
</tr>
<tr>
<td>UK</td>
<td>12.25x</td>
<td>6.90x</td>
</tr>
<tr>
<td>USA</td>
<td>12.25x</td>
<td>6.90x</td>
</tr>
</tbody>
</table>

Source: Hitting the Sweet Spot, E&Y, Currency is USD
INDIA’S STRONGEST ECONOMY IN DECADES

The Indian economy is stronger than it has been in decades. Since the 1990s, which saw the country’s economy open up under a wave of economic reforms, various macro-economic parameters have seen steady progress. Between 1995 and 2013, India’s GDP increased 2.5 times per capita and 3.3 times in constant terms, and the international reserves increased 13 fold.

THE INDIA STORY HAS UNFOLDED IN THE LAST TWO DECADES

THERE IS MORE OPPORTUNITY AND LESS RISK TO THE INDIAN ECONOMY FROM A MACRO-ECONOMIC PERSPECTIVE THAN TWO DECADES AGO

<table>
<thead>
<tr>
<th>Metric</th>
<th>2013</th>
<th>GROWTH OVER 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>POPULATION (Billion)</td>
<td>1.25</td>
<td>1.3X</td>
</tr>
<tr>
<td>GDP PER CAPITA (Constant 2005 US $)</td>
<td>1,164</td>
<td>2.5X</td>
</tr>
<tr>
<td>GROSS DOMESTIC PRODUCT (Constant 2005 US $ Trillion)</td>
<td>1.46</td>
<td>3.3X</td>
</tr>
<tr>
<td>INTERNATIONAL RESERVES (USD Trillion)</td>
<td>0.3</td>
<td>13X</td>
</tr>
</tbody>
</table>


With such dramatic growth, the Indian economy now matters on the world stage. In purchasing power parity (PPP) terms, the Indian economy is the third largest in the world, behind only the U.S. and China. States in India are now comparable to leading world
economies in PPP terms: Karnataka is as big as Hong Kong, Gujarat is comparable to Singapore, Punjab is similar to New Zealand and Maharashtra is equivalent to Poland. As a result, marketers are now seeing India as a country made up of many countries.

**A COUNTRY OF MANY COUNTRIES**

**STATES IN INDIA HAVE PPP SIZE EQUIVALENT TO OTHER COUNTRIES ACROSS THE GLOBE**

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Much of this growth has to do with India steadily emerging as a services economy. In 1995, according to the Asian Development Bank, agriculture contributed to 27% of India’s GDP. In 2012, this number was down to 17%. At the same time, services accounted for 46% of the economy in 1995 and increased to 57% in 2012. India’s economy is less reliant on agriculture and the vagaries of the monsoons than ever before.

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**TOP 5 COUNTRIES BY PPP IN USD TRILLION WORLD BANK 2012**

- **USA**: 16.2
- **CHINA**: 14.8
- **INDIA**: 6.4
- **JAPAN**: 4.5
- **GERMANY**: 3.4

Source: International Monetary Fund; Word Bank; Nielsen’s The Cambridge Group analysis
The service economy has enabled many more Indians to move up the economic strata. According to the Indian Readership Survey, the proportion of urban Indian households that had a monthly income of INR 5,000 or lower fell from 72% in 2007 to 44% in 2012. At the same time, households with a monthly income of more than INR 10,000 increased from 6% to 21% over the same period. Economic prosperity is not just limited to urban areas. Rural India has also seen a steady shift of the populace breaking out of the poverty threshold.

**POPULATION CONTINUES TO MOVE UP THE ECONOMIC STRATA**

**BIG-shiftS WILL BE SEEN IN RURAL AS WELL AND THIS WILL FUEL GROWTH IN COMING YEARS**

**HOUSEHOLD DISTRIBUTION BY ANNUAL INCOME**

The Indian economy is also fairly well balanced in its reliance on domestic consumption as a proportion of GDP. While China (35%) and Russia (49%) have relatively high reliance on external trade and investments, and as 69% of the U.S. economy is driven by domestic consumption, India falls securely in the middle of the pack, with 60% of its economy driven by household consumption. This bodes well for the stability of the country’s economic future.
With an ever improving macro-economic foundation, will India emerge as the next global super power? What does this mean for the average consumer and the discerning investor? Is this potential beginning to unlock itself?
The backbone of India’s spectacular growth between 2003 and 2008 was robust domestic demand, which led to the belief that India would remain insulated even as recession spread across the world starting 2009. The ‘decoupling theory’ was based on the understanding that even as advanced economies went into a downturn, emerging economies like China and India would continue to flourish, backed by their healthy macro-economic indicators.

While decoupling seemed to hold true till 2010, India started feeling the downturn’s pressure in late 2011. India’s financial markets—including equity markets, money markets, foreign exchange markets and credit markets—all started coming under pressure from a number of directions. Overseas finances began drying up, capital flows reversed, current account deficits increased, starting the rupee’s depreciation. Shortly, consumer and business sentiment reflected this change, dropping quarter-over-quarter. Locally and globally, the ‘India growth story’ was being questioned, until the worst came when India reported its lowest GDP growth in years at 4.4% for two consecutive quarters in Oct-Dec 2012 and Jan-March 2013. The Indian rupee too reached its lowest point of 68.87 to a dollar in August 2013. All this affected domestic consumption. Sales started dipping across real estate deals, consumer durables and automobiles, as well as day-to-day items in food and beverages.
CONSUMER CONFIDENCE MIRRORED MACRO TRENDS

AFTER A YEAR OR SO OF DECOUPLING, INDIA STARTED FEELING RECESSIONARY PRESSURES FROM MID 2011

CONSUMER CONFIDENCE AND GDP GROWTH TRENDS, INDIA

Source: Nielsen Global Consumer Confidence Index; GDP Growth: Latest estimates as available on 1st Dec 2014 on www.mospi.nic.in

2013: A TOUGH YEAR FOR CONSUMPTION


INDIA FMCG VOLUME GROWTH % OVER YEAR AGO

In a survey conducted by Nielsen in September 2013, business leaders and opinion makers in India felt the worst is over. With general elections on the horizon, business leaders predicted a rebound in growth that would be reflected in the appreciation of the Indian rupee and the Indian stock markets. In reality, the rebound didn’t gain ground until 2014. Year-over-year, the rupee appreciated about 15% and the stock markets increased a whopping 50% by September 2014.
In anticipation of economic growth and better prospects, consumer sentiments have started moving up. And higher growth in consumption across categories is expected once again.
BLOOM AND GLOOM
CONSUMER LEARNINGS FROM AN UNCERTAIN ERA

The biggest barometer of an economy’s strength lies in how its consumption shapes up over time. In robust economies, increased spending and saving sustain growth; similarly, even during a slowdown, we see that consumers only modify their shopping habits, keeping overall consumption steady.

But how do you measure an economy’s health? Keen understanding of how consumers think and act during various economic conditions can help marketing organizations respond appropriately and build strategies that ensure consumption consistently expands. Nielsen’s Global Survey of Consumer Confidence uses consumer sentiments to measure confidence around the world thereby uncovering typical consumer behaviour during economic ups and downs. When analysed over a longer period—during 2009’s boom period and 2013’s gloomier time—it reveals some interesting and even some counterintuitive insights on Indian consumption habits in urban markets.

1. SMART SHOPPING: Shrinking wallet growth and inflation has triggered smarter shopping behaviour. Consumers’ searches for deals and promotions climbed significantly during 2013’s gloom time. However, growth in promotions across all sectors and industries has now made this behaviour routine. This trend has also led to consumers increasingly changing stores and even brands on the basis of promotions, resulting in a decline in the number of ‘loyal’ shoppers. But as Indians seek more discounts, they aren’t restricting their choices and tend to look for newer products that offer better solutions and value for their money. Even more assuring for the industry, consumers aren’t limiting themselves to essentials and are open to spending on luxury items despite slow economic growth. Smart shopping behaviour has also improved private labels’ image; consumers now accept store brands significantly more than before 2013 for non-value added categories like packed grocery and staples. So while shopping got smarter as India’s growth rate decelerated, this consumer habit is likely to continue even as growth gets back on track.
## SMART SHOPPING

### CONSUMERS SEEK MORE DEALS, TRY NEW THINGS AND MANAGE WALLET BETTER IN TOUGH YEARS

<table>
<thead>
<tr>
<th>Action</th>
<th>2009</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actively Search for Promotions</td>
<td>37%</td>
<td>49%</td>
</tr>
<tr>
<td>Change Stores Based on Best Promotions Offered</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>Change Brand’s Choice if on Promotion</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td>“I’m always on the lookout for new brands and products”</td>
<td>18%</td>
<td>34%</td>
</tr>
<tr>
<td>Buy Essentials / Cut down on Luxuries</td>
<td>72%</td>
<td>48%</td>
</tr>
<tr>
<td>Buy more private label for Essentials:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staples</td>
<td>24%</td>
<td>38%</td>
</tr>
<tr>
<td>Packed Grocery</td>
<td>14%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Nielsen Shopper Trends

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### 2. SELECTIVE PREMIUMIZATION:

Almost all companies are joining the premiumization bandwagon—by offering premium products, many are gaining from consumers’ increased willingness to pay more. Consumers, however, display brutal intelligence in paying not only for those products with a higher price tag but also those that offer better value for money, more benefits and have clear and distinct proposition. Higher prices don’t always guarantee consumers’ acceptance, and some categories have fared better than others. Between 2009 and 2013, FMCG categories like beauty, personal care and lifestyle segments that had premium products tended to ride the premiumization wave while basic categories like impulse and home-care did not find as many takers for high-priced goods. Interestingly, premium products in wellness categories found acceptance, further substantiating that consumers are exercising strong discretion and up-trading even when times get tough.
SELECTIVE PREMIUMIZATION

UPGRADE ONLY WHERE IT MATTERS TO SPEND; NOT IN ALL CONSUMPTION BASKETS

CONTRIBUTION OF PRICE SEGMENTS TO FMCG SALES

<table>
<thead>
<tr>
<th>Year</th>
<th>Mass</th>
<th>Popular</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>20%</td>
<td>48%</td>
<td>32%</td>
</tr>
<tr>
<td>2013</td>
<td>17%</td>
<td>54%</td>
<td>29%</td>
</tr>
</tbody>
</table>

SHARE OF PREMIUM PRODUCTS

- **Beauty**: 51% → 52%
- **Lifestyle**: 37% → 38%
- **Personal Care**: 29% → 31%
- **Impulse**: 34% → 32%
- **Home Care**: 43% → 30%

Source: Nielsen Retail Audit

Premium - >1.21 || Popular - 0.8 - 1.21 || Mass - < 0.8 of average category price
3. INDULGENCE REMAINS INDULGING: One could usually presume that recessionary sentiments may lead people to first cut down on indulgence products and instead resort to a more controlled lifestyle. Interestingly, people don’t significantly reduce their spending on indulgences like smoking or using a car, nor do they downgrade from their favourite alcohol brand. This insight bucks the conventional idea of how consumers behave when they tighten their belt, and marketing efforts could bring higher indulgence quotients to some aspirational categories where consumers aren’t indulging as much. This could be a unique approach for retailers and manufacturers to avoid the volatility of macro-economic sentiment.

**INDULGENCE CONTINUES**

CONSUMERS MAY NOT GIVE UP COMPULSIVE INDULGENCE EVEN DURING RECESSIONARY TIMES

**CUT DOWN SMOKING**

- 2009: 16%
- 2010: 15%
- 2011: 17%
- 2012: 15%
- 2013: 18%

**MOVE TO CHEAPER BRANDS OF ALCOHOL**

- 2009: 11%
- 2010: 10%
- 2011: 13%
- 2012: 12%
- 2013: 12%

**USE CAR LESS OFTEN**

- 2009: 25%
- 2010: 28%
- 2011: 27%
- 2012: 26%
- 2013: 29%

Source: Nielsen Consumer Confidence Survey
4. FAMILY FIRST: Despite tightening wallets in gloom times, consumers do not deprioritize togetherness and instead creatively rebalance spends for family. Consumers cut back on big-ticket expenses like annual vacations and non-essential spends like take away meals and in-home entertainment in difficult times as much as in good times. The need to stay closer to family, however, is even more important in gloom years, as short breaks and out of home expenses do not get reduced when chips are down. Family definitely becomes a source of confidence and joy when the economy isn’t encouraging.

PRIORITIZE FAMILY

EXPENSES WITH SMALL QUANTUM MAY CONTINUE TO KEEP THE FAMILY ENGAGED & HAPPY

SMART SAVING
EXPENSES WHICH WILL GET CUT NEARLY SAME AS BEFORE

<table>
<thead>
<tr>
<th>In Home Entertainment</th>
<th>Annual Vacation</th>
<th>Take Away Meals</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>32%</td>
<td>34%</td>
</tr>
<tr>
<td>21%</td>
<td>31%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: Nielsen Consumer Confidence Survey

FUTURE SPENDS
EXPENSES WHICH WILL GET CUT LESS

<table>
<thead>
<tr>
<th>Short Breaks</th>
<th>OOH Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>50%</td>
</tr>
<tr>
<td>37%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Nielsen Consumer Confidence Survey
5. SMART SAVING: When the economy contracts and Indian consumers look to reduce expenses like gas and electricity and opt for cheaper grocery, they are just as likely to seek deals on financial instruments. On the other hand, expenses like new clothes, mobiles and telephones, replacing major household items do not get reduced in gloom times as much as they would get cut in boom times. Strange but true, noted economist Milton Friedman’s “permanent income hypothesis” seems to be the only explanation for why consumers tend to continue spending on items that carry “snob” or display value in the hope that good times might just be ahead. So while macro-economic sentiments were at an all-time low in 2013, consumers’ discretionary spending intentions remained strong, reflecting their confidence that revival was around the corner—and indeed it was.

SMART SAVING

CONSUMERS MAY NOT CUT DOWN ON EVERYTHING AND SAVE SELECTIVELY

SMART SAVING
EXPENSES WHICH WILL GET CUT NEARLY SAME AS BEFORE

- SAVE ON GAS & ELECTRICITY
- MOVE TO CHEAPER GROCERY
- BETTER DEALS ON FINANCIAL INSTRUMENTS

FUTURE SPENDS
EXPENSES WHICH WILL GET CUT LESS

- SPEND ON NEW CLOTHES
- TELEPHONE EXPENSES
- DELAY REPLACEMENT OF MAJOR HOUSEHOLD ITEMS

Source: Nielsen Consumer Confidence Survey
6. **JUDICIOUS SPENDING**: Amidst spending and consumption, Indians’ intentions to save remain a priority, and during gloomy times, safe pastures get the better of risky avenues like stock market, etc. Consumers exercise visible judiciousness in their spending and acknowledge saving as a continued necessity. Interestingly, though, they do not over commit to saving irrespective of the state of macro-economic sentiment. When it comes to savings, the intent to invest in better quality of life remains unaffected. As a result, consumers opt to spend on home décor or technology products during gloom times as well, in anticipation of good times ahead.

**NO OVER-COMMITMENT TO SAVINGS**

**FINANCIAL WISDOM AND QUALITY OF LIFE GUIDE DEPLOYMENT OF SPARE CASH**

**SMART SAVING**

- **CONTINUE SPENDING ON SAFE INSTRUMENTS**

  - **ADDITIONAL SAVINGS**: 2009 - 65%, 2013 - 60%
  - **RETIREMENT FUNDS**: 2009 - 25%, 2013 - 23%
  - **STOCK MARKET INVESTMENTS**: 2009 - 40%, 2013 - 30%

**FUTURE SPENDS**

- **SPEND FOR BETTER QUALITY OF LIFE AHEAD**

  - **HOME DECOR**: 2009 - 31%, 2013 - 33%
  - **NEW TECHNOLOGY PRODUCTS**: 2009 - 32%, 2013 - 40%

Source: Nielsen Consumer Confidence Survey
So what does all this mean? These trends can help marketers orient their approach to connect with consumers in a slightly different manner that will suit consumers’ changing lifestyles during economic constrictions:

1. Build brand communication and imagery around togetherness, as “family bonding” will remain important at all times. Brands that talk about this value could see more favourable reactions both during bloom and importantly gloom.

2. Premium offerings should be convincing and relevant for the extra price. Premium products should have a distinct reason to believe, encouraging consumers to pay more.

3. Consumer technology is a strong differentiator, and it can invite spending both from a display value, as well as its assurance to provide value. Investing in product technology could be a strong way to buck any macro-economic trend.

4. Future relevant offers from companies will continue to get adequate share of spending, as consumer will keep buying with future income in mind. A creative approach may be necessary to communicate this time-agnostic side of a product or service, but it could reap good dividends for organizations.

5. Consumers’ desire for value for their money and deal-seeking natures will continue to determine spending; hence brands may have to continue considering promotions as a means to pace ahead of competition.

6. Interestingly, indulgence will cut across all macro-economic sentiments but could be leveraged by relevant categories.

7. Saving will have perceptible dimensions—with consumers preferring safe instruments and avoiding riskier avenues. However, maintaining or enhancing quality of life will not get deprioritized, as consumer will likely remain invested in these assets.

Decoding consumption behaviour has never been easy, and it gets more complicated today, as technology becomes all pervasive. However, amid all the dots that behavioural scientists continue to connect—some even using neuro technology—hard data can drive certain clear outcomes.
MARKETING MANTRAS DURING BLOOM AND GLOOM

BUILD IMAGERY AROUND FAMILY AND TOGETHERNESS

ATTACH ‘REASON TO BELIEVE’ WITH PREMIUM OFFERINGS

CONSUMER TECHNOLOGY CAN BE A DIFFERENTIATOR

SPENDING KEEPING FUTURE INCOMES IN MIND WILL CONTINUE FOR SELECT SECTORS

VALUE FOR MONEY AND DEAL SEEKING WILL DETERMINE SPENDING

INDULGENCE CAN BE LEVERAGED BY CERTAIN PRODUCT CATEGORIES

SAVINGS WILL GET PRIORITY, BUT QUALITY OF LIFE MAY NOT BE COMPROMISED
The Indian FMCG market stood at US$ 37 billion in 2013. It’s characterized by 8.7 million outlets serving 1.25 billion people. As a result, it’s vast, fragmented and challenging to manage. While India’s FMCG market has normally been immune to macro-economic pressures, it has started to show signs of giving in over the past few years. FMCG sales have slowed, with volume consumption remaining flat and nominal growths coming from price increases driven by inflationary pressure. Indian manufacturers enjoyed double digit growths in 2011 and 2012, but 2013 and 2014 have been tough.

Source: Nielsen
The sudden reversing of long-standing trends has caused concern for many. The strategies adopted while the going was good are not always as successful in the tough times. Hence, the need to understand what has worked and what hasn’t becomes imperative. It is also extremely important to understand what to expect in the short and long terms, so plans are best suited to protect companies from dynamic economic trends and can ride on growth drivers.

In the long term, a host of factors can help marketers plan well. It is no surprise that distribution is critical in a vast country like India. With a traditional trade universe of over eight million stores, the single most important variable that can drive FMCG sales is availability (33% of FMCG’s growth was driven by increase in availability of products over the last six years).

The other factor that has made companies win is being present with the right price offering for the masses. Smaller packs, like sachets and equivalents in other categories, have helped fuel the FMCG growth. Even premium brands in skin care have had to walk this route to reach an audience that aspires for an upgrade whilst keeping spending in check (18% of FMCG’s growth was driven by increase in availability of low unit-priced packs over the last six years).

### OVER LONGER TERM, MARKETERS CAN CONTROL GROWTH

**CONTROLLABLE FACTORS**

- **Availability**: 33%
- **Sachet / LUPs**: 18%
- **Awareness TV GRPs**: 3%
- **Value Packs**: 1%

**UN-CONTROLABLE FACTORS**

- **Employment**: 20%
- **Index of Industrial Production**: 13%
- **GDP**: 7%
- **Crude Oil Prices**: 5%

Source: Nielsen Retail Audit and Analytics
Given the traditional nature of India’s FMCG market and challenges in reaching rural consumers, availability is the biggest driver for FMCG, followed by employment and sachet offerings. Awareness through TV, value packs, along with macro-economic factors such as employment, industrial production, GDP and crude oil also affect the FMCG market in India.

In urban India, the Consumer Confidence Index is a good indicator of sales growth, albeit with a two quarter lag. Simply put, if consumer confidence moves up in second-quarter 2014, India is likely to see revival signs by fourth-quarter 2014. In the past, consumer sentiment anticipates behaviour change over time.

**SHORT TERM GROWTH IS DETERMINED BY MACRO INDICATORS**

MACROECONOMIC VARIABLES, WEATHER DATA AND OVERALL CONFIDENCE PLAY VITAL ROLE

Employment and industrial production are the other macro-economic variables that drive urban growth.

For sales in rural India, rainfall is a key metric. The majority of employment in rural India is still in agriculture or related industries; so rainfall levels affect spending capacity and overall buying behaviour. In fact, rainfall levels can drive 15% of sales in rural India. Other important variables that impact rural India’s FMCG shoppers are GDP and crude oil prices. But what can really help drive rural sales is being available with the right price offering like low unit packs which have not only worked for trials and increasing penetration but also for regular use.

Source: Nielsen Global Omnibus Consumer Confidence Survey and Nielsen Retail Audit

Nielsen Analytics, Modelling sales with a wide list of macroeconomic influencers, including MET data
FUTURE GAZING: ESTIMATING GDP AND FMCG MARKET GROWTH

What if you could see tomorrow, today? What if your business projections were intelligently informed with confident estimates of GDP growth and FMCG consumption growth? We know you have a lot at stake and that you put a lot of premium on the right estimate for GDP and FMCG growth. Our economic and consumption forecasting analytics have the answers to help you plan.

Contrary to common belief, we estimate GDP growth in 2014-15 and 2015-16 to stay just below 6%. This is a positive departure from the sub 5% days but probably not as aggressive an estimate that one would glean from most analyst reviews today. There are many tailwinds: low inflation, strong investor sentiment, increasing consumer sentiment, falling international crude prices, an anticipated drop in interest rates in 2015, and revival of policy action. However, if you had to sum up in one word why GDP growth will not go back to 8-9% levels in the next 1-2 years, it is: manufacturing. Manufacturing, which accounts for one out of every six rupees in India’s GDP, needs to buck its current trend. IIP (Index of Industrial Production) data for the last many quarters for capital goods production and consumer durables production are not yet favourable. Manufacturing also has a ripple effect on sectors like trade, transport, storage, and communication and thus is key for India’s revival. Improving investor sentiment and the government’s recent ‘Make in India’ campaign will help but a lag time between investment in this sector and an upswing in production is expected. So what could accelerate growth? Here are a few things the government needs to do to further accelerate the economy and beat our estimate:

- Quick closure on GST (Goods and Services Tax) reforms
- Revival of infrastructure projects (rail, ports, and road transport)
- Prudent management of food stocks
- Tight fiscal control for the next two years.
Along with GDP, growth in the FMCG market is expected to turn a corner next year. We forecast the market to sustain high single-digit value growth rate by early 2015. FMCG sales have started to trend upward this year, and they are likely to stay strong in 2015-2016 as positive consumer sentiment translates to real consumption growth. As we’ve seen in recent weeks and in line with the International Monetary Fund forecasts for 2015-2016, inflation in India seems to be less of a concern in 2015 and this will mean that the FMCG market will witness at least 6%-7% of real growth in consumption (a pleasant departure from 2014!). 2015 and 2016 will take the FMCG market back to double digit value growth and favourable real consumption growth. The days of single digit FMCG growth are numbered. India’s party is just getting started and everyone is invited.
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The authors would like to thank Sumita Kale, Chief Economist, Indicus Analytics - A Nielsen Company for her contributions to this report.
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