



# CONSUMPTION

## *A Dual Within*



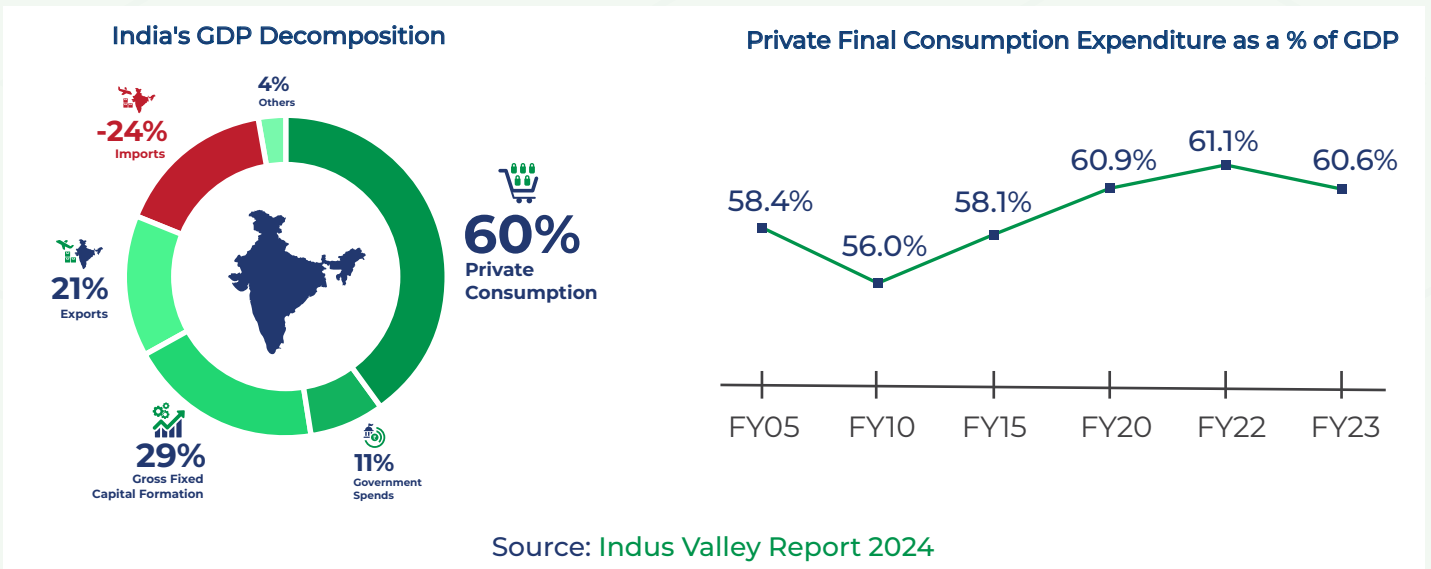
Swastik Ghadge | March 31, 2024

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In our Aug 2023 monthly letter, 'Indian Consumption Saga', I wrote about the various facets of consumption. It emphasizes different psychological factors involved in a consumer's decision-making process. Consumption is a moniker used for India's growth; it is the most essential factor due to the **1.4 billion** people who proudly call themselves Indians.

Lately, I have observed a duality in the consumption story. Before diving into it further, let us review the metrics proving consumption is the protagonist.



The data proves that **private consumption** forms a major part of our GDP. We can observe this trend over the years driven by various classes of consumption. Apart from the traditional urban and rural stratification, we can classify the population based on household income.

Income Structure of Consumer India						
Population Quintile based on per capita Income				% Share of each income quintile to total		
	HH in mn	HH Size	HH Inc Lakhs/year	Income	Expenditure	Surplus Income
<b>Richest 20%</b>	72 mn	3.72	6.3	45	36	<b>70</b>
<b>Next 20%</b>	61 mn	4.33	3.6	22	23	<b>20</b>
Next 20%	42 mn	4.71	2.7	15	18	8
Next 20%	49 mn	5.44	2.2	11	14	3
<b>Bottom 20%</b>	42 mn	6.28	1.6	7	10	<b>-1</b>
All India	281 mn	4.70	3.9	100	100	
Richest 10%	39 mn	3.43	7.5	29%	22	50
Poorest 20%	20 mn	6.56	1.4	3%	4	-1

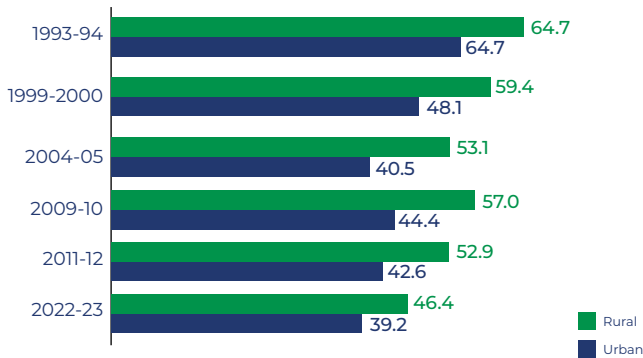
Source: Ice 360

Close to **60%** of the households live for the age-old Roti, Kapda aur Makaan. Recently, it has been noticeable that there is a split in the consumption story in the form of 'Essential vs Premium' or 'Discretionary vs Non-Discretionary'.

## IPL- Indian Premium League

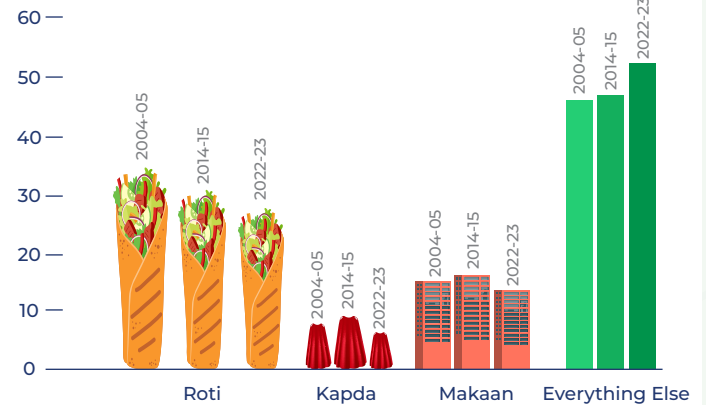
Post-1991, the first major shift in consumption occurred when the share of non-food spending started to increase in the total household expenditure compared to the share of food expenditure. Over the years, the wallet share has decreased to less than **50%**. Similarly, there is a slight uptick in non-essential expenses.

Share (%) of food in monthly per capita expenditure, as measured by government surveys



Note: Data for 1993-94 and 2022-23 are not strictly comparable with the rest, due to methodological differences

As a % of private final consumption expenditure in GDP data



Data at current prices; latest available estimates used. Roti: Food and non-alcoholic beverages, kapda: clothing and footwear, makaan: housing, water, electricity, fuel

Source: Mint

*“India teaches me again and again, that the categories into which I try to divide things don’t hold up.”*

- Dena Moes

After COVID-19, the overall economy faced rising supply-side inflation, and interest rates acted as a speed breaker for the consuming class. With the advent of El Nino (Extreme Weather Conditions) which began in the early months of 2023, the health of the consumer market deteriorated further. All the consumer-facing companies have also witnessed this phenomenon.

**Operating environment remains challenging**

**Weather vagaries**

Uneven monsoon | Delayed winter

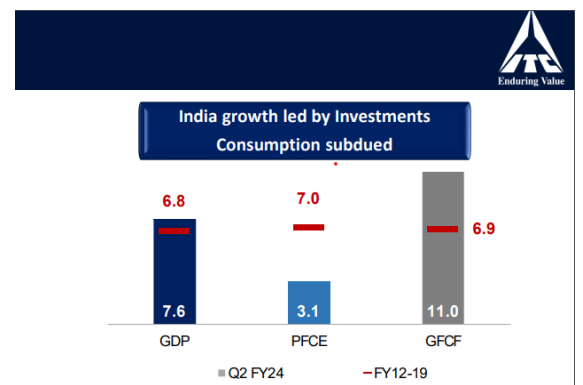
**Subdued festive season**

Weak consumer sentiment

**Uneven economic recovery**

Urban > Rural | Premium > Mass

Source: HUL



Source: ITC Presentation

However, amidst this slowdown, the consumer market has seen robust growth in the premium pockets. Consumers are not only spending for the necessities but also for the experience and convenience.

We as consumers have always been different from the **global graahak**. The aspirations we carry within ourselves are reflected in how we spend. Evolution is not only in generations but also in aspirations, and the addition to this journey is the concept of **'Premiumisation'**.

## What has changed?

Consumption preferences have changed, we can attribute it to the young aspirational tech-savvy population of our country. An estimate suggests that 2030 India will have **22.7 crore Millennials** (born between 1981-1996) and **37.4 crore Gen Z** (born between 1997-2010) Population. Millennials and Gen Z will drive the consumption. Both these generations are in their spending age, Gen Zs especially are trend shapers because they value experiences, love travel, seek work-life balance, and have handsome options for financial credit

Businesses that benefit from the consumption theme have also realized the potential of this **'Premium Express'** and are now onboard.

**Product Leadership: Product Innovation Focused on Winning in Premium Segments** 

Initiated Plans for Premiumization of the Portfolio in 2022

**Single Door Refrigerator**

'Appliance of the Year Refrigerator' Category at National Energy Conservation Awards (NECA) Dec 2023 received from the President of India

**Premium 5 star** reintroduced in Q2'23

**Top Load Fully Automatic Washers**

In built heaters, upgraded to soft close even in premium entry.

**Front Load Fully Automatic Washers**

Made in India with path-breaking ozone refresh technology

**Top Mount; Bottom Mount Refrigerator**

-Fastest convertibility (23 minutes)  
-10-in-1 convertible mode from mid'23 for 265-360 litre.  
-2x longer vitamin preservation

**Semi-Automatic Washers**

-New Product (coming soon) in premium Semi-Automatic category

\* 21% DC 15

Source: Whirlpool

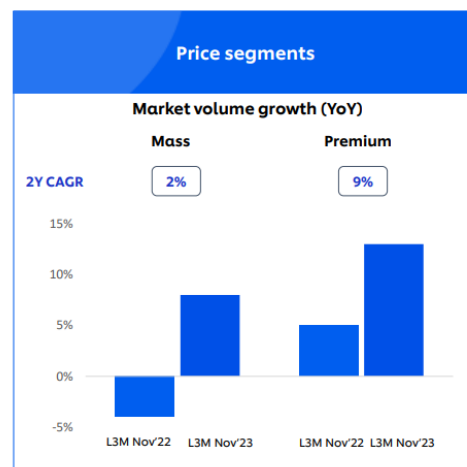
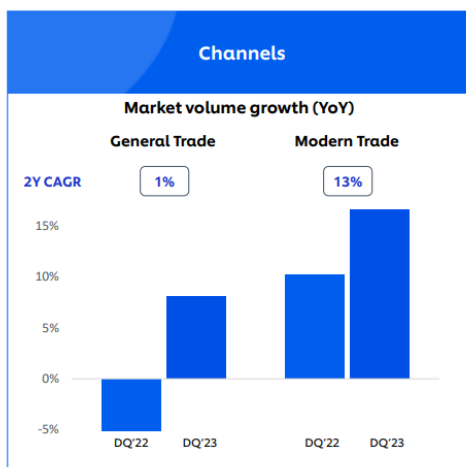
**Win in Premium – Product, Experience & Brand** 

PRODUCT	EXPERIENCE	BRAND
<b>1. PREMIUM PORTFOLIO</b>  Karizma XMR H-D X440 MAVRICK 440	<b>1. NEXT GEN SALES EXPERIENCE</b>  HERO 2.0	<b>1. BUILDING BRANDS, CULTURE</b> 
<b>2. PREMIUMIZING THE CORE</b>  X-TEC RANGE 125R	<b>2. SERVICE EXPERIENCE</b>  PRIMA Service	<b>2. BIKING MERCHANDISE</b> 

Source: Hero

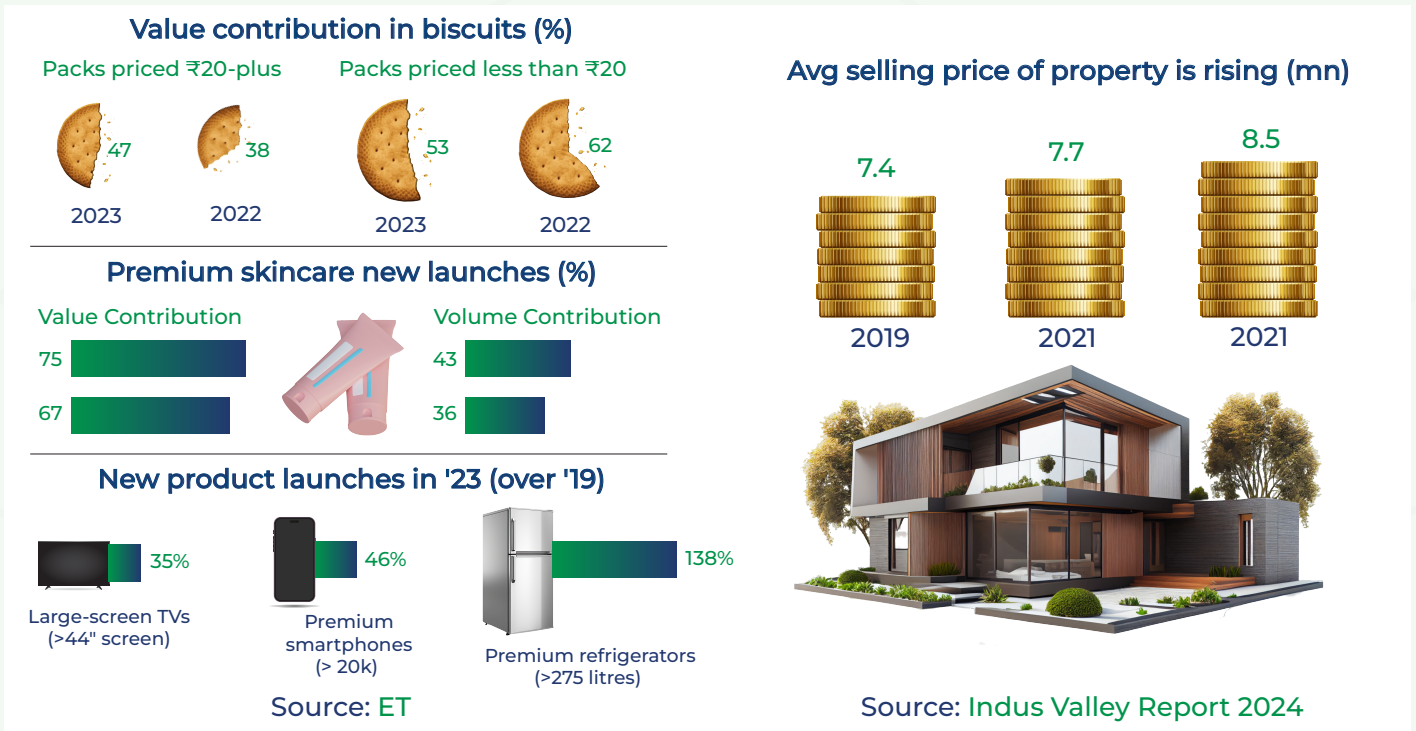


## Modern Trade and Premium lead market growth



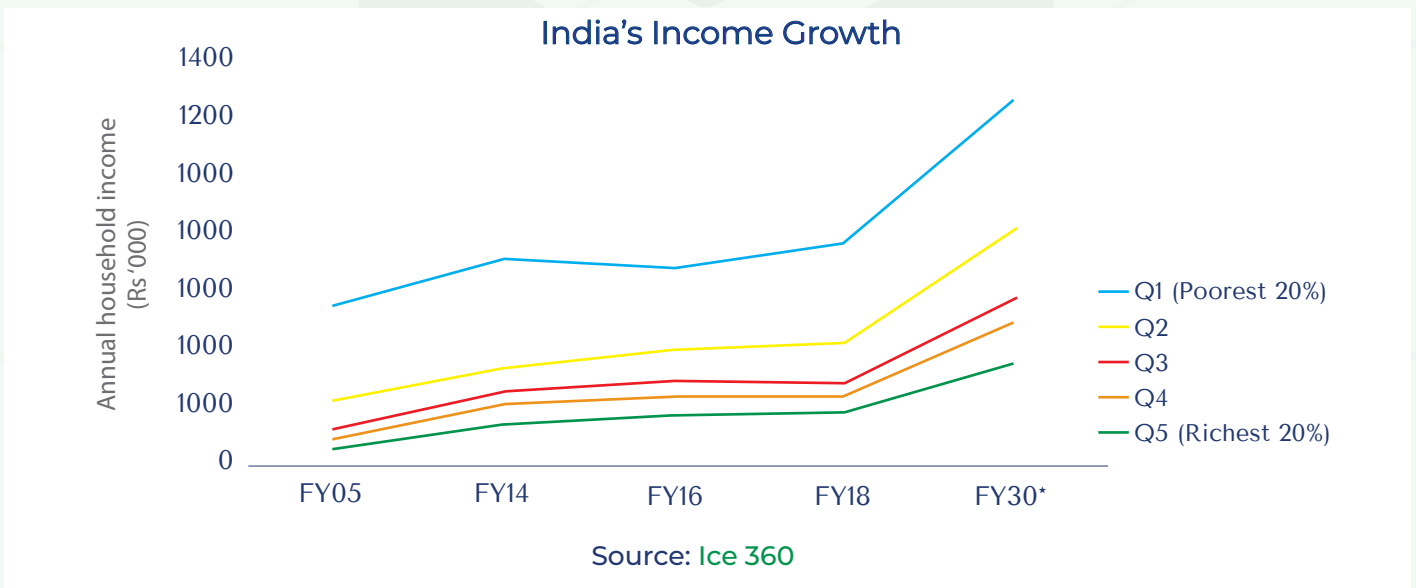
Source: HUL

Everyone has realized the shift of power toward the high-end market and has planned their product mix accordingly. Even though there is a slowdown in overall consumption the sale of premium goods has skyrocketed.



## Premium the only way?

It is one of the ways right now to smooth sailing for businesses. We saw at the beginning that **40%** of the population with higher surplus income forms the majority of the consumption economy.



However, we can see that in this premium league too, blue and yellow are winning until now but the potential of the bottom teams is yet to unlock.

Even if there is a (consumption) slowdown the economy is growing, and this phenomenon is driven by the capex boom in the economy. A catch here is that capex is government-led, and private capex contribution is yet to begin, eventually leading to a consumption boom.

We can understand the same from the below cycle:



Consumption will always be paramount to our growth. However, we must remember that it is not the sole parameter. It alone cannot drive the **6-7% annual growth** that is widely expected of it. Putting the country on a sustainable growth path will be a prerequisite for a consumption boom to grow and sustain. It requires collaboration between the government and corporates and that will pave the way for the prodigal son.

----- Thank You for Reading! See You Next Month! -----

## Some Interesting Reads

- 📖 Consumption Conundrum - Neelkanth Mishra
- 📖 Premiumisation picks up pace for large consumer goods companies
- 📖 Consumers acquire a taste for premium as the mass market lags
- 📖 How India's affluent palates are steering the premiumisation revolution
- 📖 India Inc.'s Premium Play
- 📖 India's 10 Trillion dollars GDP dream

*\*Click on the Above Text Access the Links*

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