India is Trading Up (And Down)

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With contribution from Shruti Patodia

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AT A GLANCE

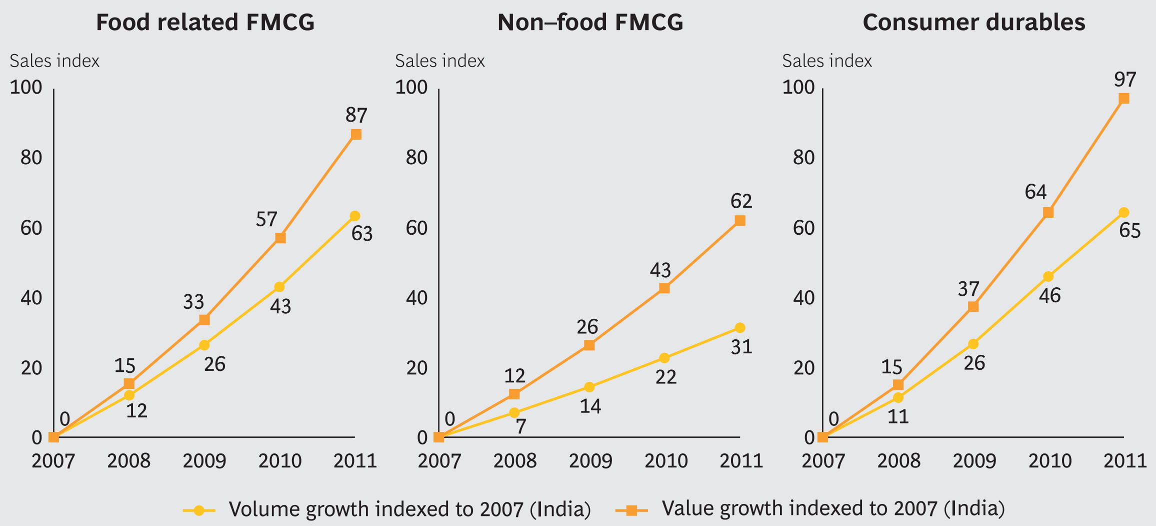
The global economic recession continues to be long and deep — and consumers across the globe remain insecure and anxious. They are tightening their budgets and actively trading down. The impact of the recession has also been evident in India with slower growth, higher interest rates and accelerating inflation. However, in the midst of all this gloom and doom, one silver lining that has lurked beneath the radar and escaped broader attention has been the strong trading up and consequent rise of the premium segment in India.

In the last five years, average annual household incomes in India have increased by over $3,000 with consumption increasing from $500 billion to $1,000 billion. The "premium" segment across categories has grown faster than ever before — and value growth has outpaced volume growth across categories (as shown in Exhibit 1), as Indian consumers have consciously traded–up for superior offers.

The Boston Consulting Group's eleventh annual Consumer Sentiment Survey, conducted in April and May of 2012 covered more than 22,000 consumers in 16 countries (2,200 in India) across 50 product categories. It further de–codes this phenomenon.

The majority of consumers in the world's richest markets are insecure about their jobs and are struggling to save — almost half intend to cut back on discretionary

Exhibit 1 | Value Growth Outpacing Volume Growth Across Categories



Source: Euromonitor, BCG Analysis
Note: Durables include all consumer appliances and consumer electronics . Consumer Appliances includes refrigeration appliances, home laundry appliances, dishwashers, large cooking appliances and microwaves, food preparation appliances, small cooking appliances, small kitchen appliances (non-cooking), vacuum cleaners, irons, personal care appliances, heating appliances and air treatment appliances.. Non food FMCG includes pet care, apparel, fragrance and personal care. Food related FMCG include biscuits, confectionery, processed food, canned food, bakery, oils and soft drinks

spends over the next year. In many markets, consumers' worries are more intense than they were a year ago, hovering near the peak levels of 2008 to 2009. Most are pessimistic about the speed of economic recovery. One in four, on average, are worried about losing their jobs. This crisis of confidence is prompting consumers to invest in education, increase their savings, and hunt for value.

In sharp contrast, overall confidence in India is high. Over 75% of Indian consumers feel financially secure, are positive about their futures and those of their children. They consistently display amongst the strongest positive sentiments and highest levels of trading up across markets. They trade up in over 35% of purchase occasions and trade down in only 39% of occasions (as shown in Exhibit 2). However, they don't just jump at more expensive offers — they hunt for greater value, look for discernible differences and make careful choices.

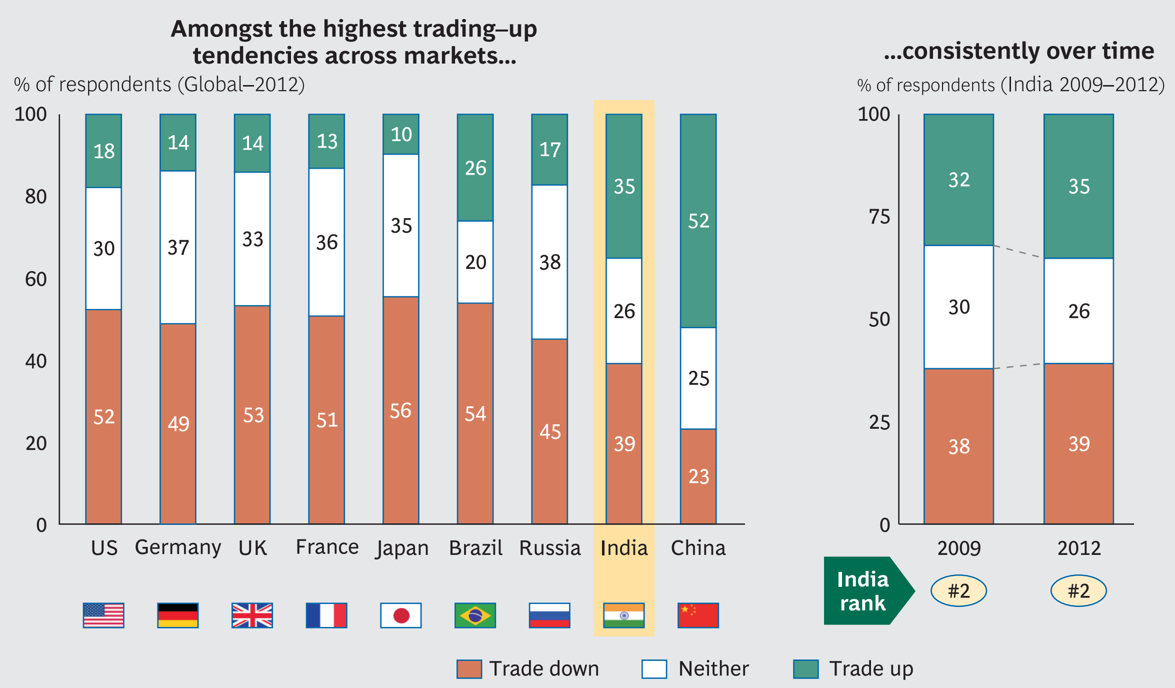
This paper shares some insights on the changing spending patterns of Indian consumers.

Five myths that merit a closer look

Myth 1: Trading Up is about consistently paying more, and Trading Down is about paying less

Consumers trade up in 35% of purchase occasions (as shown in Exhibit 2). However, they are extremely selective in their choices. They conduct a careful assessment of all their options and trade up only for tangible, discernible differences in a product

EXHIBIT 2 | Indian Consumers Are Trading Up



Source: BCG Consumer Sentiment Barometer 2009–2012.

or service experience. They don't compromise on a better product or service — over 64% will consciously choose quality over quantity. Yet at the same time, over 46% will actively bargain hunt and look for the best deals, or will restrict consumption to buy the better / more expensive offer.

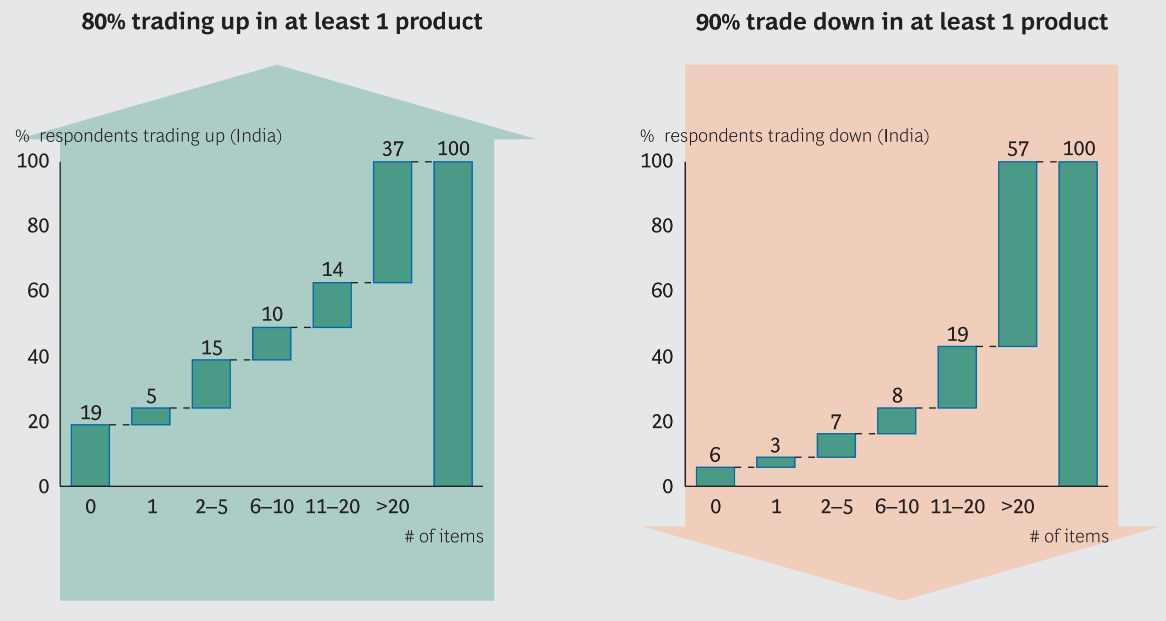
Myth 2: Consumers either Trade Up or Down — they don't do both

Consumers conduct a constant balancing act. They have limited budgets and simultaneously trade–up and down on different products depending on the importance of the category and the quality of offer. Over 80% of Indian consumers trade–up on at least one purchase occasion while 37% trade up in over 20 categories (as shown in Exhibit 3). They trade–up for their children and trade–down for themselves; trade–up for healthier products and fresh food, but trade down for an indulgent dessert; they trade up for an expensive mobile phone, but trade down to get the cheapest mobile connection. Overall, they trade up in select categories (such as, consumer durables, mobiles and health products) — those that matter the most and where they see discernible differences in product attributes and benefits.

Myth 3: Trading up is restricted to the affluent And Trading Down to the Lower Income Groups.

Consumers across income segments display both trading up and trading down behavior (as shown in Exhibit 4). Even lower middle class consumers who earn Rs. 10–20,000 per month, trade up in 30–35% of their purchase occasions — they trade up for healthier food, better education for their children, and a superior personal or

EXHIBIT 3 | Simultaneously Trading Up and Down



Source: BCG Consumer Sentiment Barometer 2012.

EXHIBIT 4 | Trading Up and Down cuts across income groups

Source: BCG Consumer Sentiment Barometer 2012.
Note: Income Classification based on BCG segmentation from "The Tiger Roars"
[1]Income figures per annum.

household care product. At the same time, affluent consumers (earning over Rs. 75,000 per month) trade up more extensively, on 40% of purchase occasions, but also trade down in parallel. They trade down when they don't see a discernible difference in quality or product experience and "save" that money for a superior experience elsewhere.

Myth 4: Trading up is restricted to the "big" cities And Trading Down to small towns and rural areas.

Across categories, growth at the premium end has not come only from the big cities. With increasing incomes and awareness levels, the needs and consumption patterns in small town India are rapidly converging with those of the larger, more affluents towns. Though there are fewer affluent and middle class consumers in these towns, their purchase patterns and tendency to trade–up is often higher than that of their big–city counterparts. Aspirers (earning Rs. 25–75,000 per month) for example, trade up in 31% of purchase occasions in metros and 37% of occasions in Tier 4 towns. They have higher aspirations, are driven by conspicuous consumption and benefit from a lower cost of living.

Myth 5: Trading up is about luxury products and services.
Trading Up is actually about spending just a little more than you would normally do at each level. One consumer, for example, uses a local (inexpensive) utensil cleaner — but she mixes in a small quantity of expensive utensil cleaner for stubborn stains. At the same time, a large proportion of consumers will trade–up for a superior variant of the car they buy (in the same price segment) — paying a Rs. 30–50,000 premium for coveted features like air conditioner, power steering or power windows etc.

A Call to Action!

Trading up (and down) is an active and conscious choice that every Indian consumer makes on every purchase occasion. As companies gear up to proactively influence this choice, few questions need to be addressed:

- Step 1: Understand **what is happening** in each category
  - Are your consumers trading up or down, and why?
  - How does this differ across consumer segments and purchase occasions?

- Step 2: Choose **where to focus** and with **what offer**
  - Which segments should you target for trading up (down) and why?
  - What emotional and functional benefits will drive trading up (down) with these segments?
  - Are your current offers designed to offer a discernible differentiation over your competition on attributes that really matter?

- Step 3: Design the **right business model** to win
  - What product, pricing and delivery model will be required?
  - What distribution and supply chain setup will you need?
  - How will your organization need to change to support this?

About the Authors

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