Winning Indian Consumers in 2011

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Contents

1. Executive Summary

A. India has demonstrated a strong economic performance …

◊ India has had a strong GDP growth rate, 6.7 percent in FY09, 7.4 percent in FY10 and 8.5 percent in FY11.

◊ The economy continues to maintain strong growth fundamentals — industrial production has been growing and the rising prosperity of the middle class has been spurring demand. India is expected to be within the top three economics of the world by 2020.

B. ….but was suffering from rampant inflation for the last 2 years

◊ Inflation has been the primary economic bane. WPI rose to 9.3 percent in March 2011. Essential commodities were severely impacted and food inflation reached 16.7 percent in March 2011.

◊ Inflationary pressure had put stress on demand from the Indian consumer, despite strong economic growth.

C. Inflation is causing concern amongst India consumers

◊ Many Indians closely associate economic well being to inflation.

◊ 43 percent Indians surveyed in 2011 feel personally impacted by the economic scenario. This is about 10 percent higher than the corresponding figure for 2010 as well the benchmark for BRIC nations in 2011 (34 percent).

D. However their view on the future remains positive

◊ 75percent Indians surveyed in 2011 feel that the economy will improve in the future. This is about 17 percent higher than the corresponding figure for 2010 and lower than that for nations like Russia (34), Mexico (39) and Turkey (35) in 2011.

E. Consumers are shifting from conspicuous to conscious consumption

◊ About 40 percent of Indians surveyed in 2011 wanted to decrease spending (levels similar to 2010). At the same time intentions to cut back spending have seen a marginal (4 percent) decline from 2010.

◊ Values are witnessing a shift — there is higher emphasis on savings, home and family and a reduced focus on luxury purchases. Cocooning is emerging as a key trend. Both men and women prefer to stay at home.

◊ Consumers want to spend smart. They want to cut spending on non-essential items (74 percent), shop in discount stores (64 percent) and shop around to find the best prices (63 percent).

F. Overall, trading up emerges as a dominant phenomenon, while trading down remains restricted to discretionary categories like jewellery, athletic shoes, sporting equipment and eating out

◊ Trading up tendencies amongst Indians (34 percent) are much higher than those exhibited by respondents in Brazil (26 percent), Russia (22 percent) or Mexico (9 percent).

◊ Consumers are ready to trade up for health (65 percent) or a good brand name (65 percent).

While collating the findings from this research and based on our experience in working with consumer companies around the world, we identified six best practices to tap into consumers' evolving needs:

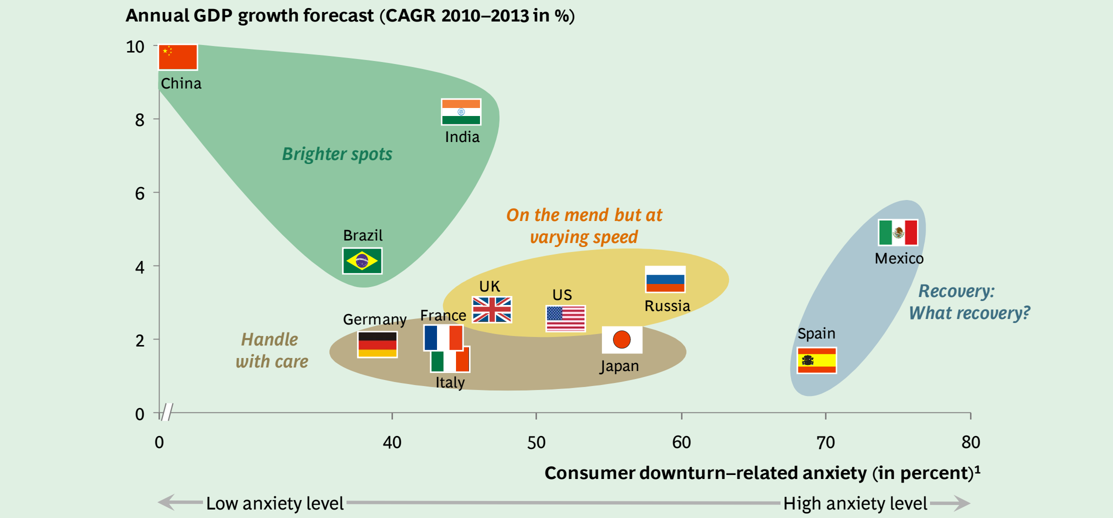
- ◊ De–average the go–to–market playbook
- ◊ Consider multiple channels and improve customer conversion rates by focusing on the 'last three feet'
- ◊ Replenish the war chest with a sustained focus on cash and costs
- ◊ Accelerate product innovations
- ◊ Upgrade capabilities in capturing consumer insight
- ◊ Rethink the business model and develop alternate scenarios

2. Indian Economy: Strong Fundamentals but Inflationary Woes

In the aftermath of the financial crisis, the global economy is seeing a multi–speed recovery. While India, China and Brazil are clear "bright spots" with high GDP growth forecasts and relatively lower consumer anxiety, most developed nations — particularly the US and Europe — are likely to see stymied growth and negative consumer sentiment (Exhibit 1).

Exhibit 1: Two–speed world, uneven consumer recovery

3–year average GDP growth forecast versus consumer downturn–related anxiety

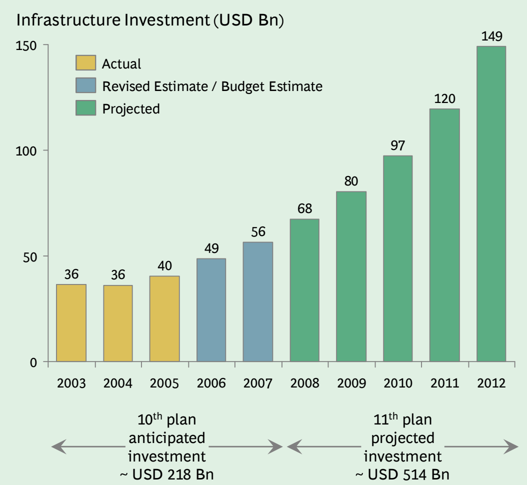


Source: International Monetary Fund (IMF) 2010; BCG Consumer Sentiment Barometer, 2010; N = 629 in US, N = 746 in Japan, N = 1137 in Germany, N = 718 in UK, N = 469 in Spain, N = 690 in Italy, N = 721 in France, N = 2090 / 2585 in China, N = 682 in Brazil, N = 1067 in India, N = 743 in Mexico, N = 313 in Russia; BCG analysis.
Note: Bottom income quartile cut and sample reweighted to represent real income distribution in each country.
1. Calculated by using the average of the responses "I am affected by the downturn" and "I am anxious about the future".

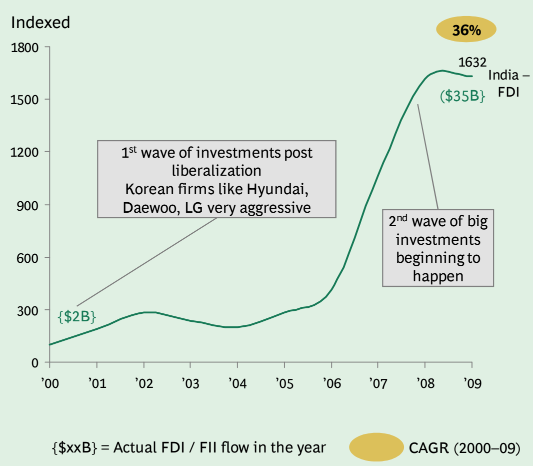
India, in particular, has witnessed phenomenal progress. Manifestations of this growth are evident across various economic indicators. The stock market hovered around 18000 + levels in May 2011. Household and corporate debt levels continue to remain low, as does the country's reliance on international trade, which accounts for approximately 20 percent of the GDP. While the fiscal deficit was as high as 5.1 percent of GDP in FY11, the GDP growth continued to remain robust. Most forecasts peg India's GDP growth for FY12 to be at ~8.0 – 8.5 percent. The working population is expected to grow to 55 percent by 2016, compared to 48 percent in 2003. There has been a rapid growth in government investment on infrastructure as well as FDI inflows. In summary, India's growth story is unbroken supported by strong fundamentals (Exhibit 2).

Exhibit 2: India's growth story is supported by strong fundamentals...

Increasing government investments



Growing FDI



Source: NCAER, SOI; BCG analysis, Population Projections for India and States 1996–2016, Registrar General, Ministry of Home Affairs, Govt. of India, EIU market data, The Great Indian Middle Class – NCAER (2004); SAFE; RBI; BCG analysis
Note: Numbers for India are financial year end, FDI / FII flows have been indexed for the base year 2000.
1. Ratio of Total Dependents (0–19 + 60+) to Total Working age Population (20–59)

The Indian consumer story also continues unabated. The rising middle class brings with it growing incomes and new aspirations. This consumer segment is unshackled by the traditional saving mindset and is willing to explore new frontiers. We also believe that India's next billion will continue to drive demand. While they will remain value conscious consumers, these consumers will aggregate to create a substantial demand for new products and services. Together, the proliferation of the middle class and the next billion shall drive domestic demand.

Amidst this economics progress, continued inflationary pressure has emerged as a key concern. Inflation in India has been rising continuously for the past two years. The Consumer Price Index (CPI) has been close to double digits for the last 2 years and reached 16.9 percent in January 2011. At that time, the CPI indicated that retail prices increased at almost twice the rate of wholesale prices [Wholesale Price Index (WPI) — 8.6 percent].

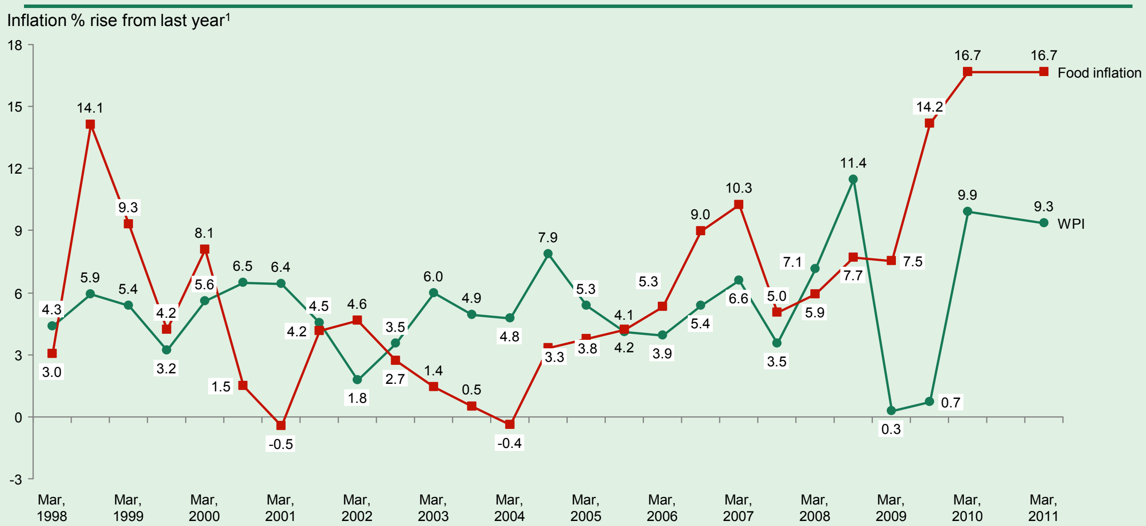
Rise in food prices has been one of the key factors driving inflation. Driven by a low agricultural output, food price inflation touched an all time high. Rise in food prices has affected the lower income groups the most, as food constitutes a much larger part of their purchase basket. Food price inflation continues to rise unabated and touched 16.7 percent in March 2011. Policy makers blamed unseasonal rains and supply side bottlenecks for high food prices. In January 2011, India's food price index rose to 16.9 percent, driven mainly by high vegetable prices — vegetable prices were up around 67 percent year–on–year.

Inflation seems to be an India–specific problem as none of the other large economies in the world are suffering from such high levels of continued inflation. Although some analysts attribute high inflation to the fact that India is a rapidly growing economy, other high growth countries like China or Brazil are not seeing such rampant inflation. It has also become a focus area for the

Reserve Bank of India which recently declared curbing inflation as its key priority. To combat inflation, the central bank has raised borrowing costs nine times in the last 15 months, thereby making credit more expensive. The repo and reverse repo rates saw significant increases, from 4.75% to 7.5% and 3.25% to 6. 5% respectively, during this period. This seemingly out of control price rise and higher credit costs has dampened the otherwise upbeat consumer mood to a large extent.

Exhibit 3: Inflationary price rise passed on disproportionately to the consumer

Food inflation and WPI



Source: Wholesale Price Index, Weekly Statistics, MOPSI; Consumer Price Index of Urban Non Manual Employee (UNME). Monthly Statistics, MOPSI.
Note 1: This is the new wholesale price index that has 2004–05 as the base year. The Wholesale Price Index (WPI) is the price of a representative basket of wholesale goods. The indicator tracks the price movement of each commodity individually. Based on this individual movement, the WPI is determined through the averaging principle. The Wholesale Price Index focuses on the price of goods traded between corporations, rather than goods bought by consumers.
Note 2: The Consumer Price Index (CPI) is a measure of the prices of consumer goods and services bought at retail prices. This includes food, fuel, clothing and pharmaceuticals.

3. Consumer Sentiment: From Conspicuous to Conscious Consumption

Indian consumers use inflation as an index to calibrate economic health. Hence rising inflation has cast a shadow of doubt in the consumers' mind on the overall health of the economy. This has led to the rise of *conscious* (as opposed to *conspicuous*) consumption. We see a marked and continuing shift in values away from luxury and status to financial prudence and stability. Consumers are also looking for products that promote health, safety of food supply and renewable energy. This change in consumption is leading to the emergence of new values.

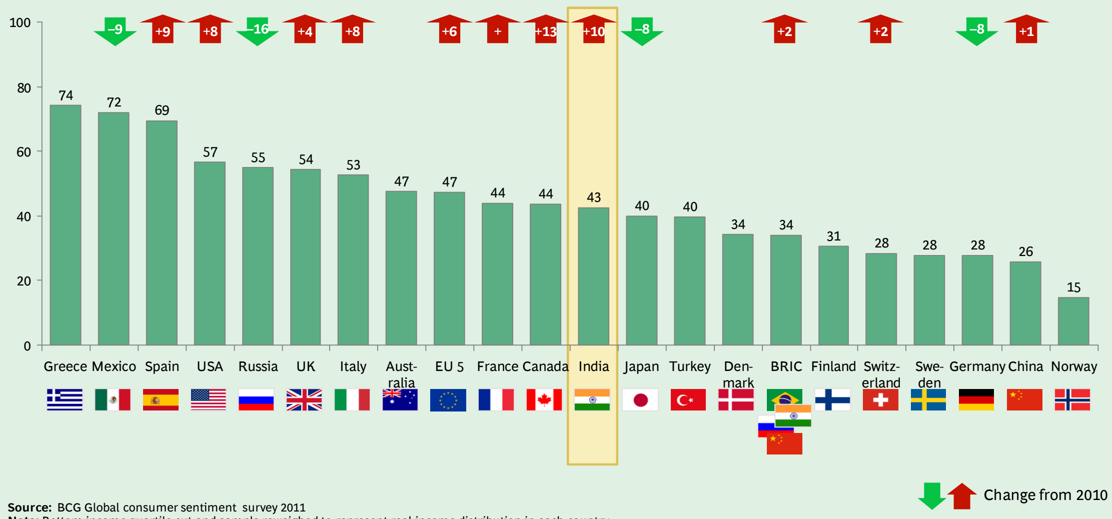
Our survey of Indian consumers this year, revealed a positive yet cautious outlook. Although growth of the Indian economy kept consumers shielded from the global downturn, inflation has led to a sense of insecurity about the future.

Indian consumers have been moderately affected by the downturn. The respondents who felt personally impacted by the downturn have increased considerably from 32 percent last year to 43 percent in 2011 (Exhibit 4). At the same time, the impact felt in other countries like US (57 percent), UK (54 percent), Russia (55 percent) and Mexico (72 percent) was much higher (Exhibit 4). On the other hand, consumers in China (26 percent) did not feel a significant impact of the downturn on their lives.

Indian consumers continued to be anxious about the future. While the recession–weary consumers in the developed economies embraced the news that a recovery may have finally begun, strong inflationary pressures kept the Indian consumers as anxious as they were in 2010 (Exhibit 5).

Exhibit 4: Many Indians feel personally impacted by the downturn

Percentage of respondents feeling "personally impacted" by the economic downturn1

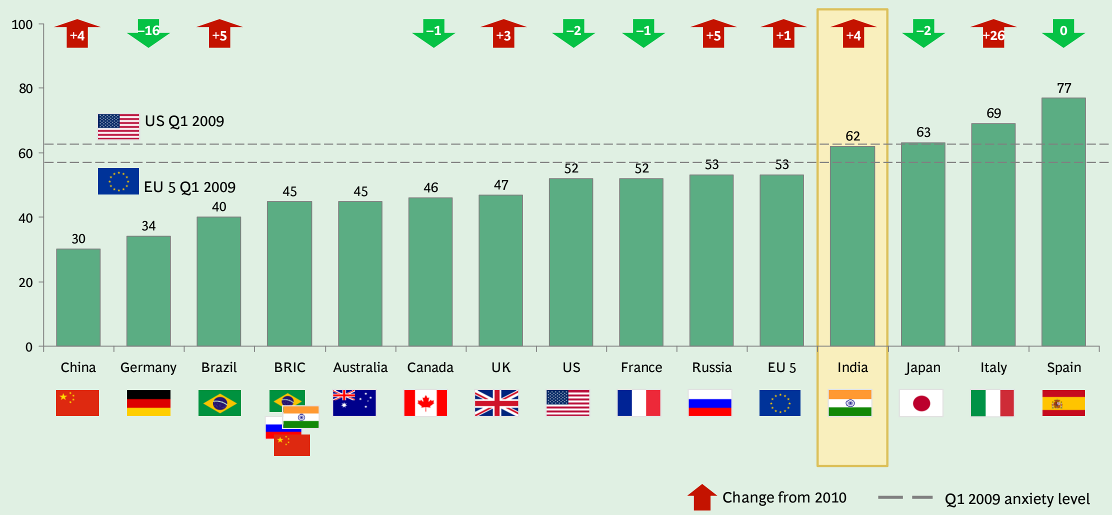


Source: BCG Global consumer sentiment survey 2011
Note: Bottom income quartile cut and sample reweighed to represent real income distribution in each country
1. Survey question: Have you been personally affected by this global economic downturn?
2. Response options include: Yes / No. Only respondents who were aware of the existence of the global economic downturn were asked.

Exhibit 5: Anxiety levels high, slight increase over last year

"I am anxious about the future"

Respondents agreeing / strongly agreeing[1] (in %)



Source: BCG Global consumer sentiment survey 2011
Note: Bottom income quartile cut and sample reweighed to represent real income distribution in each country
1. Survey question: Please indicate how much you agree or disagree that each statement describes you and your own attitudes toward saving and spending.

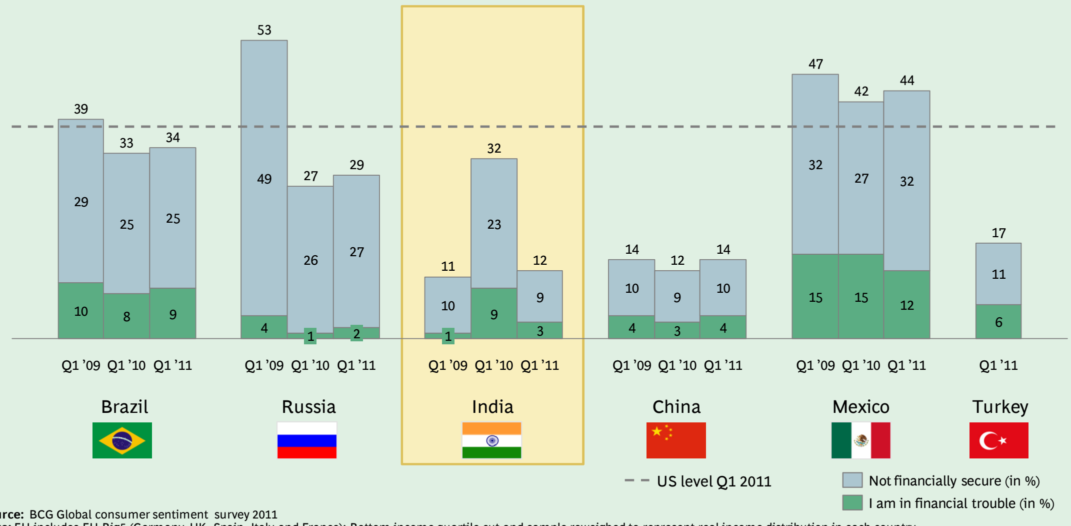
However, Indian consumers are optimistic about the economy. Only 25 percent of the respondents believed that the economy has been hit very badly and will not recover even in the next several years, as compared to 40 percent last year. The Indian consumer considers inflation while calibrating economic performance and seems to have come to terms with it as the consumer sentiment has improved substantially.

The Consumer Confidence Index (CCI) in India remained stable at about 70, showing an upward trend in recent months. The increase, however, was much lower than that in all other countries. While in India, consumer confidence is still significantly lower than the pre–crisis level (100), the increase in some countries like Brazil and China was high enough to push consumer confidence back to pre–crisis levels. Per capita consumer expenditure continued to rise across all emerging markets including India, where the increase (~50%) from 1990 levels was the highest amongst BRICM economies.

The outlook on personal finances in India is much brighter as compared to the previous year. While last year, 32 percent of the consumers said they were worried about personal finances, the response dropped to just 12 percent this year (Exhibit 6).

Exhibit 6: Significant improvement in outlook on personal finances

"Which of the following statements best characterizes your feelings on your personal financial situation?[1]"



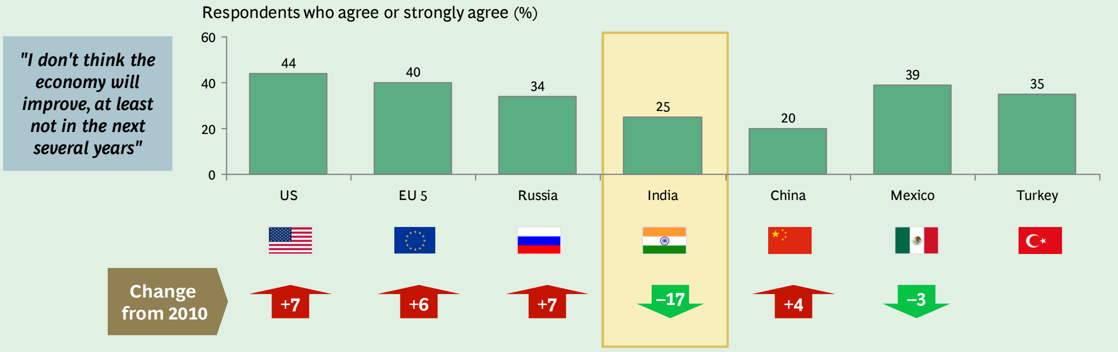
Source: BCG Global consumer sentiment survey 2011
Note: EU includes EU Big5 (Germany, UK, Spain, Italy and France); Bottom income quartile cut and sample reweighed to represent real income distribution in each country
1. Response options include: Very financially secure, somewhat financially secure, not financially secure, in financial trouble

4. Demystifying the Anxious Consumer : Resultant Impact

Pressured by inflation, the Indian consumers plan to cut spending and change habits to suit the "new normal". Indians remain largely optimistic about the economy. Only 25 percent Indians believe that the economy will not improve over the next several years as opposed to 39 percent Mexicans and 34 percent Russians (Exhibit 7).

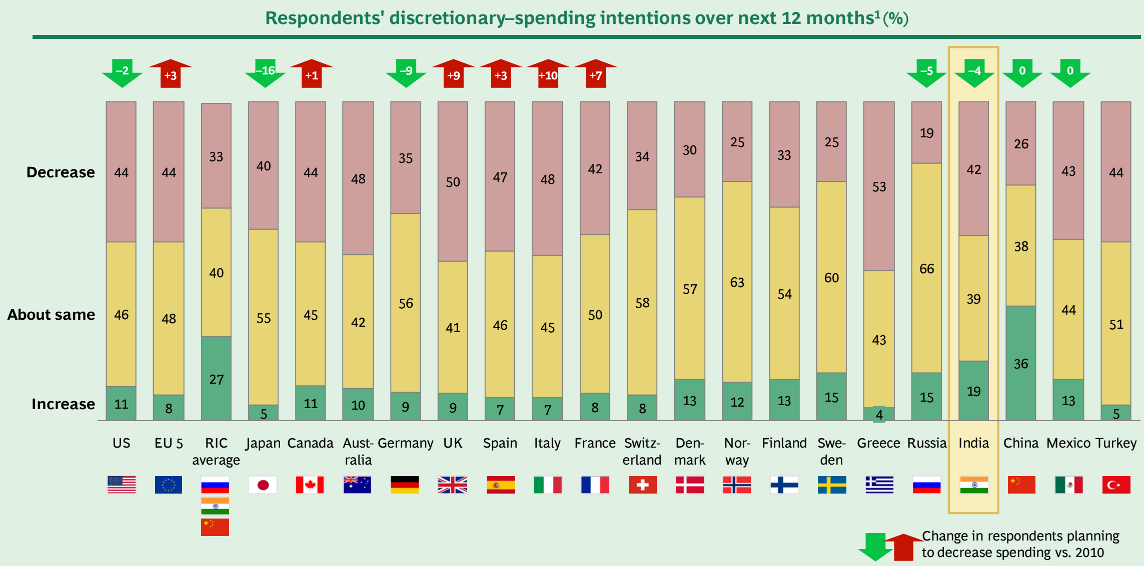
Indian consumers in particular, have adopted what we refer to as a "wait–and–see" attitude for their spending plans. This year, 42 percent of Indian consumers surveyed, plan to decrease spends over the next 12 months (Exhibit 8). Similar to spending intentions, spending habits in the country have also undergone some change. Compared to last year, Indians are buying fewer things, shopping in discount stores more often, spending more time looking for better prices, buying more products on promotion and even deferring major expenses that can wait (Exhibit 9). Inflation has unarguably changed the boundaries of affordability for many Indians.

Exhibit 7: Indians are highly optimistic about economic recovery



Source: BCG Global consumer sentiment survey 2011
1. Survey question: Please describe how strongly you agree or disagree with the following statements about the current and future states of the economy.
2. Response options: Strongly agree, somewhat agree, neither agree nor disagree, somewhat disagree, strongly disagree

Exhibit 8: Intention to cut back spending strong in India, though lower than last year



Source: BCG Global consumer sentiment survey 2011
Note: EU includes EU Big5 (Germany, UK, Spain, Italy and France). Brazil data excluded. Bottom income quartile cut and sample reweighed to represent real income distribution in each count
1. Survey question: Excluding the effects of any inflation or price increases, how do you expect your discretionary spending to change in the next 12 months? By discretionary spending we mean, your spending beyond the basics.
2. Response options: Plan to spend a lot more than last year, a little more than last year, about the same as last year, a little less than last year, a lot less than last year.

Many of the consumers surveyed, mentioned that they were saving on discretionary items (especially vacations, personal–care products, and accessories) and diverting it to children's education and retirement funds.

A de–averaged view indicates that within India, the metros and the middle income group are driving these downbeat spend intentions in the country. Inflation impacts daily decisions of these consumer segments, hence shaping their overall perception of the economy and their attitude towards spending.

Exhibit 9: Spending likely to become more selective in India`

Even in the coming year, there will be products on which consumers will be willing to spend

The economic slowdown has also resulted in a clear shift back to basic values — family, home, education, savings, wealth and status, which have all became more important for consumers over the past two years. On the other hand, the focus on luxury, local communities and craftsmanship and local products has reduced significantly. The importance of family and home has been driven by stressed budgets and emotions, amongst other factors. The cocooning trend of seeking relief from stress and anxiety by staying at home continues to be strong in the country — when stressed, both men and women prefer to either spend time with family (men — 71 percent and women — 80 percent) or stay at home (men — 46 percent and women — 58 percent). Activities, indulgence, abstinence and professional help rank much lower on consumer's list of steps to fight stress and anxiety.

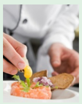
While on one hand consumers are not indulging as much as pre recessionary times, the reality of strong macroeconomic growth and rising aspirations of the Indian middle class cannot be ignored. The average Indian is still dreaming of a better life (Illustration 1). He wishes not just for the basics like better education and better medical facilities, but also craves modern luxuries and amenities. The vast Indian populace wants bigger cars, larger TVs and better grooming products and will spend even more on these, as soon as the daily vagaries of inflation come under control.

Illustration 1: India's hard–working, emerging–market singles — Avinash spends to reinforce his independence from traditional norms

29 years old
Single
Lives by himself in a two–bedroom house in a posh residential neighborhood in Bangalore
Team leader at a Leading IT company

Avinash's story

- "I was born in Kota, a small town in Rajasthan, where students are encouraged to study and prepare for at engineering schools entrance exams."
- "I wanted to be a fashion designer, but my parents insisted that the only way I could leave home was to study more. So I said, if not Mumbai and fashion, then let me go to an engineering college in Tamil Nadu."
- "I have lived in Bangalore for six years now, and I like it here. Going back would be difficult as I am used to my way of life here and the lack of any restrictions."
- "I work until about 9 or 10 p.m. every day. My job responsibilities have greatly increased. Every day, I love to wrestle with problems and challenges. That keeps me going."



His dreams

Having enough money to spend without thinking about the price

- "A calm, peaceful life with no worries about money. If I like something, I should just be able to buy it, without thinking."

Owning a restaurant

- "My hobby is cooking, I love cooking. In five to ten years, with the right investments, I hope to open my own restaurant."

His fears and concerns

Not saving enough

- Nearly half of my salary goes in monthly installment payments. While I am secured in my job, I always think, "What if I want to leave?"
- "I believe that you should always have enough in your account to live on for six months. I do not have that."

Starting to save more

- "The question for me is always, 'What next?' I am currently happy with my job, but I constantly think about what I want to do. That's why I have started trying to save some money so that I can pursue my dream in the next ten years."

Views on the downturn

- Has seen people around him lose jobs
- Was asked as a team leader to evaluate performance on much more stringent scales than normal
- Believes that the recession was caused by excessive consumerism and careless banking
- Feels that the core of the economy is not strong and that complete economic recovery is several years away

How he copes

- Feels that the current crisis has had no impact on him. He has received a raise from his company
- Has not tried to change his spending patterns or his way of life
- Has, however, become more aware of the need to save and invest

Reasons to trade up and down

- Trades up on personal grooming products, Looks for better brands as he cannot compromise on quality
- Aspires to own a bigger car and a better house as they reflect status
- Has not had to trade down, but believes he could trade down on branded clothes and groceries
- Believes he could also cut down on out–of–home entertainment

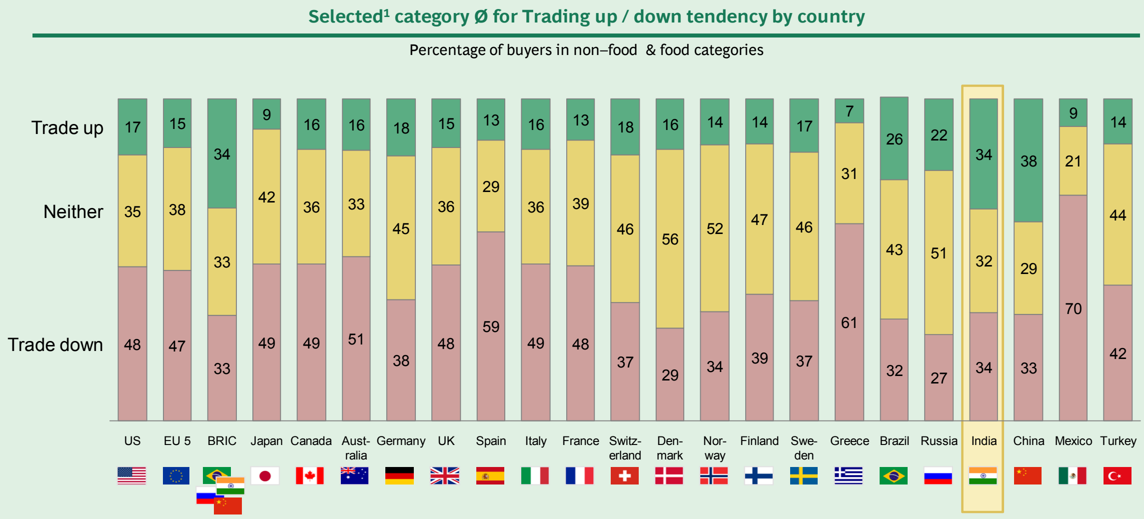
5. Save Here to Spend There: Trading Up and Down

Trading up — i.e. buying more expensive products within the same category and trading down i.e. buying cheaper products in the same category, are fairly common amongst Indian consumers.

We now see that consumers in India, as in the world over, are trading up for the right reasons. Perceived value lies not only in a product's or service's ability to deliver on an advertised promise, but also in the worthiness of that benefit. Is the benefit emotionally meaningful? Will it offer a sense of shelter or a much-needed respite, if only temporarily? Will it be good for the environment, for the family, and for the community? When so much of the world is going without, consumers need to feel justified in how they choose to spend the money they have. Companies that can connect these feelings with their value propositions will do much better in the marketplace, than those that cannot.

All the developing economies saw a significant change in trading up and trading down trends vis–à–vis 2010. The tendency to trade up, in developing economies like India (34 percent), China (38 percent), Brazil (26 percent) and Russia (22 percent) was much higher than that in developed countries like US (17 percent), EU (15 percent) and Japan (9 percent). Mexico, with only 9 percent consumers showing a desire to trade up, is the only exception to this trend. After experiencing a temporary but steep increase in 2010 (58 percent consumers) Indians wanting to trade down have gone back to the 2009 level of about 35 percent (Exhibit 10).

Exhibit 10: Indians are trading up and down selectively – trading up in India among the highest



Source: BCG Global consumer sentiment survey 2011
Note: Bottom income quartile cut and sample reweighed to represent real income distribution in each country. EU includes EU Big5 (Germany, UK, Spain, Italy and France); Developing markets include Brazil, China, India, Russia.
1. Survey question: We would now like to ask you a few questions on your general spending habits in different product categories. Please indicate your attitude about spending using the following scale: A) I try to spend the bare minimum; B)I try to save a little money; C) I don't try to spend more or less; D) I'm willing to spend somewhat more; E) I'm willing to pay as much as I can; F) N/A – I neither buy nor plan to buy products in this category
2. Response options: 'A and 'B' are classified as "Trade Down"; responses 'D', 'E' are classified as "Trade Up"; response 'C' is classified as "Neither", all 'F' responses are excluded from the data. Data rounded appropriately in order to sum up to 100%.

As cautious as Indian consumers may be, they still refuse to compromise in categories such as foods, health and kids. Health, infact, emerged as one of the key drivers for Indians to trade up (Exhibit 11). This is also evident in the rising spend on health insurance as well as healthcare facilities. High end hospitals and diagnostic centers in India are seeing more traffic than ever, thanks to the growing awareness amongst the masses and increasing propensity to spend on healthcare. Brand name is the other driver to trade up, driven by the increasing importance of social status. Several companies have captured this opportunity by introducing branded products at prices that are higher than unbranded products, but are still affordable.

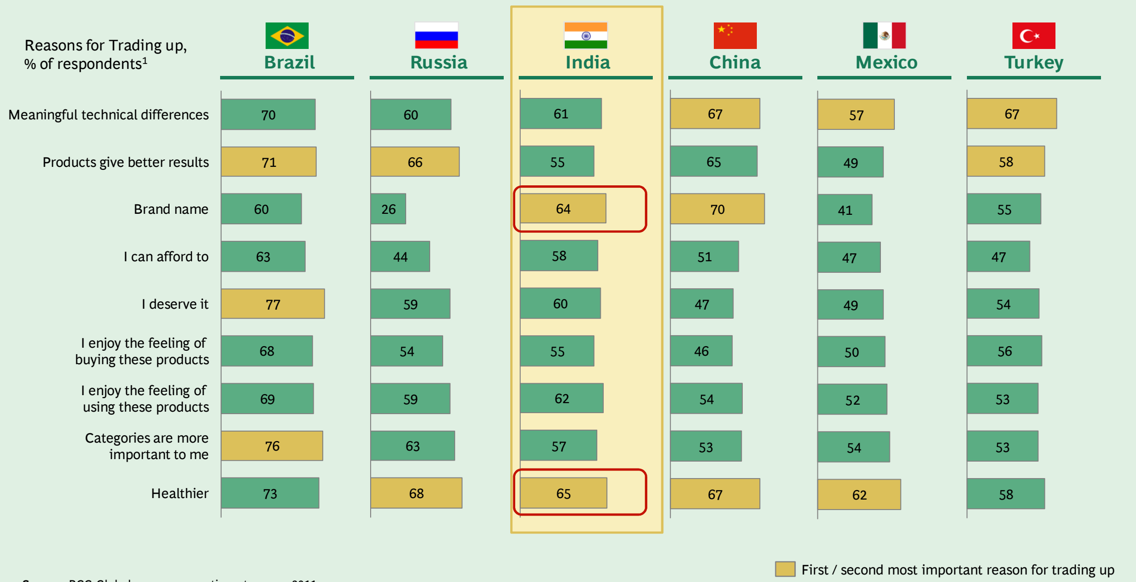
Categories such as dairy, fresh food, laundry detergents, vitamins and supplements, juices, kids clothing continue to be important. In these categories, consumers trade up for a multitude of reasons including health, brand, fun and better results. They justify paying price premiums with the rationale that “I deserve it” or “I can afford to”. Although, majority of the reasons for trading up emerged much stronger in India than in other developing countries, the response rate for each reason was much lower than last year.

Trading down in India is driven not just by necessity, but also by the thrill one derives on getting a great deal. Even before the downturn, many Indian consumers were devoted treasure hunters — key believers in the ‘*paisa vasool*’ sentiment. The high response rate for trading down because one "enjoys the feeling of saving money" validates this understanding. The trading down sentiment in India, which had exploded in 2010, also came down to 2009 levels.

Spending associated with discretionary categories like jewellery, athletic shoes, sporting equipment and eating out has been and continues to be vulnerable. These categories see trading down tendencies of more than 40 percent. On the other hand, categories related to health and kids saw a much lesser extent of trading down — only less than 30 percent traded down in dairy products, vitamin supplements, baby food and kids clothing (Exhibit 12).

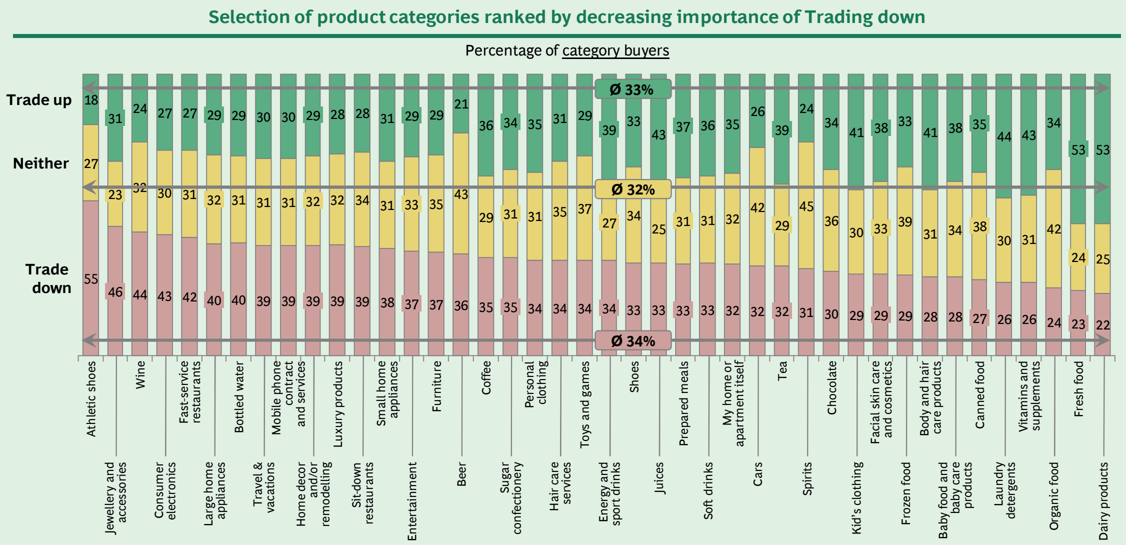
Exhibit 11: Health and brand name key drivers for trading up in India

Other rational reasons equally important



Source: BCG Global consumer sentiment survey 2011
1. Survey question: Think now about those categories where you are willing to pay a little more or as much as you can for premium quality goods and services. Please indicate how well these statements describe why you personally are willing to spend more on these categories.
2. Response options: 1-5, where 1 = Does not describe me at all; 5 = Describes very well. Respondents who selected '4' or '5' have been included. Bottom income quartile cut and sample reweighed to represent real income distribution in each country unless stated otherwise

Exhibit 12: Although trading down seen across several categories, much lower than last year



Survey question: We would now like to ask you a few questions on your general spending habits in different product categories. Please indicate your attitude about spending using the following scale: A) I try to spend the bare minimum, B)I try to save a little money, C) I don't try to spend more or less, D) I'm willing to spend somewhat more, E) I'm willing to pay as much as I can, F) N/A – I neither buy nor plan to buy products in this category 2. Responses 'A and 'B' are classified as "Trade Down"; responses 'D', 'E' are classified as "Trade Up"; response 'C' is classified as "Neither", all 'F' responses are excluded from the data. Data rounded appropriately in order to sum up to 100%.
Source: BCG Global consumer sentiment survey 2011
Note: Bottom income quartile cut and sample reweighed to represent real income distribution in each country

Every consumer loves a deal, but Indians thrive on this. Finding fun in "smart shopping" is very much alive among Indian consumers, who will continue to hunt for the best prices and actively look for sales and promotions. India leads the BRIC nations in bargain hunting and in its preference for private labels (45 percent), cheaper brands (68 percent) and reduced purchase of branded products (68 percent).

Companies have responded to the consumer desire for lower prices with 'bargain hunting' sales and offers across products. Retail apparels witnessed drastic price cuts during sale periods, which were for a much longer duration, often extended to 'till stocks last". Large established retailers stressed on economies of scale to convince consumers of lower prices. Retailers also offered discounts and lowest price guarantees across all products at the same time, so as to attract consumers. Even auto and consumer durable companies offered heavy discounts and free gifts to induce better sales.

All in all, the Indian consumers continue to be dynamic and vigilant. While they are not closed to trading up, a good deal will not go un–noticed. Companies must ensure that they sustain this tricky balance of pocketing the consumer and healthy margins simultaneously.

6. Implications for companies: Dare to change

As the global economy recovers from the downturn, some shifts in what consumers most value appear to be remaining in place. What had seemed to be short-term adaptations to hard times a few years ago are in fact turning out to be more lasting changes. Therefore, companies that are looking for a better way to attract consumers as the economy slowly recovers would do well to pay attention to these transitions. We offer the following guidelines to serve the new consumer:

- ◊ *Support the resurgence of trading up.* Don't assume trading up is dead—instead provide meaningful reasons to spend and choose the premium alternative. This includes product lines that target specific consumer values, such as environmental safety, local sourcing, or health. Make sure that the difference between brand and private label is well communicated, and that it justifies a price premium.

- ◊ *Meet consumers' continuing (and likely to increase) need to trade down.* Focus on the emotional benefits of trading down, such as the thrill of getting a good deal, as well as the functional benefits consumers might be seeking in your categories. Leverage the trading down trend by removing features your customers are willing to do without. Cover all price points, including the "value premium" end of the market by creating "basic versions" of key brands and products.

We have looked across the industry and identified six best practices to help companies stimulate and capture recovering consumer demand, capitalize on slower competitive responses, and lay the foundations for a faster recovery.

a) De–average the go–to–market playbook

As consumers change, so do their perceptions about prices, their beliefs about which actions constitute trading up and their attitudes toward channels. Although consumers in many markets will continue to be price sensitive, there are ways to communicate value beyond just 'cheapest price'.

1) De–average pricing to tap price–resilient segments:

Some companies are commanding full prices for products that offer features which consumers are willing to spend on, while simultaneously lowering prices on other highly visible items to attract budget–conscious consumers. Some leading luxury–jewelry brands have extended their lines to include items with "more approachable" price points (that is, below $1,000) to draw in a broader group of consumers. Such brands continue to attract the wealthy while also drawing middle–class consumers who want to treat themselves.

2) Continue defending high–margin businesses:

Actively manage the price–value relationship against cheaper alternatives and private labels. Make sure products stack up favorably, and keep a constant eye on how things are trending in the marketplace; stakes are high and players move fast.

3) Communicate and redefine value:

Make sure consumers know your value proposition and why your brands are worth a bit more. Many leading firms have already turned up the dial on their value messages; therefore, to be heard amidst all the noise, it is critical to ensure that the message has both the credibility and volume.

4) Apply intelligent pricing techniques:

Certain approaches can allow one to capture pockets of resurging demand while still demonstrating value. Popular techniques include the following:

◊ Reduce the perceived price point by offering smaller package sizes or volume discounts.

◊ Adopt a discounting strategy: raise list prices and discounts to prepare for higher–frequency promotions.

◊ Optimize trade spending to align with current market and brand positioning.

◊ Monitor the relative price position frequently because the landscape is changing.

◊ Fit consumers' pockets. Even as the desire to spend is rebounding, a good way to protect margins and deliver savings to customers is to eliminate features that customers do not value, such as excess packaging.

Create a renaissance in the middle: Brands with mid–market positions may benefit from the fact that consumers are becoming more selective about where they trade up while also curtailing their trading down activities. When consumers care about a category and regularly purchase upscale offerings, they rarely descend all the way to a private label or value brand. Rather, they are more likely to consider a strongly positioned brand in the middle that allows them to save on price without making too much of a compromise. By emphasizing "premium" benefits at an affordable price, companies may be able to capture these consumers as they move away from both ends of the price spectrum.

b) Consider multiple channels and improve customer conversion rates by focusing on the 'last three feet'

Given the turmoil during the past two years, many companies have once again come to embrace the importance of the "last three feet" — that is, the space in which shopping consumers make their final purchase decisions. In this space, you can drive up average purchase totals and sway shoppers in favor of your brands. Consumers will remain careful about their purchases into the recovery, and that means every dollar of marketing investment must count. Companies need to get as much return as they can, from point–of–sale displays, making the consumer's total purchase experience as easy and enjoyable as possible, and improving the ability of sales personnel to close a sale with consumers who visit a store or ask for help online. During the downturn, consumers also became accustomed to visiting more channels, including low–cost ones. Marketers need to reassess their own channel mixes in light of such shifts. Although channel conflicts remain a concern, the overall level of shake–up in the marketplace creates a unique opportunity to put new channel considerations on the table.

c) Replenish the war chest with a sustained focus on cash and costs

Bold action on cash and costs have been key imperatives for companies throughout the downturn — for some, such action created a cushion to fund price decreases; for others, it enabled them to just survive. Although many executives are tired of cutting back, these steps are very important through the recovery. Companies need to free up the resources required to accelerate the much–needed consumer innovations and endure sustained pricing pressure in many categories.

Cash. To increase liquidity, managing the top line by finding better ways to retain the most valuable customers and targeting consumer and market segments that are rebounding more quickly, is critical. Improve working capital by accelerating receivables and inventory turns and consider divesting any non–core assets. **Costs**. Most companies have already acted to reduce costs by focusing on the low–hanging fruits, such as spending on advertising, voluntarily reducing head count, limited delayering and cutting back on corporate travel. Although necessary, such moves are insufficient to create a powerful war chest for accelerating a recovery. Now is the time for more thoughtful action, a deeper examination of the business model's appropriateness for the current economy and a stronger focus on reducing complexity by pruning underperforming SKUs, businesses, and assets. It is also time to take a scalpel to investments in advertising and promotions. Many companies are discovering that they can cut marketing costs by as much as 30 percent without compromising their impact, by engaging in smarter targeting of messages and channels. Non–traditional media (such as internet–based community sites) are proving to be a precise and cost–effective way of reaching specific segments of consumers. Closer scrutiny of marketing activities helps companies identify vehicles which offer the greatest returns. However, the balance needs to be maintained. One cannot ignore the broadcast media, as they are vital for building and sustaining mass–market consumer brands.

It has been sometime since uneasy consumers heard good news. The downturn and high inflation have touched many of them deeply and they will not be quick to abandon the sentiments and behaviors that were triggered or intensified by these. The smartest players will accelerate their recovery by investing early in innovation for future times when consumers will certainly return with much larger appetites for spending. Companies that seize the opportunity to offer consumers better value — in design and ingredients, functional improvements, and especially emotional benefits for still–jittery shoppers — will accelerate their recovery far more rapidly than the rest.

d) Accelerate product innovations

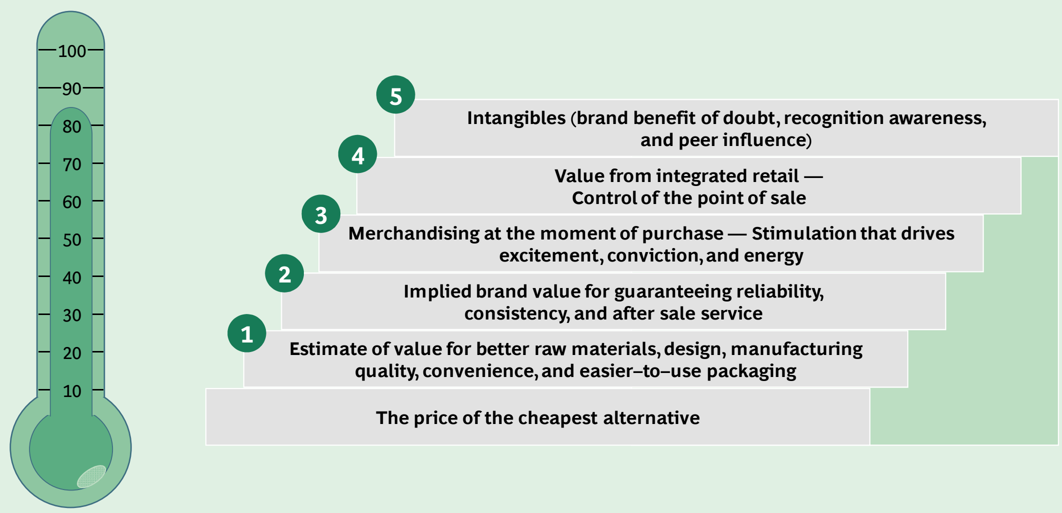
Consumers have become naturally inclined to think in terms of less; and in its wake, they have been asking themselves, "What can we cut back on to save money?" Savvy marketers understand that the early recovery is a time to get consumers to start thinking of more – not wastefully or lavishly, but with offerings that dispel the feelings of doing without, while not taxing consumers' elevated sense of caution. Consumers remain open to compelling stories about technical, functional, and emotional benefits that provide reasons and incentives to return to the markets and buy. Innovation remains a powerful lever in protecting margins, and pockets of more robust demand and openness to trading up exist everywhere.

Although, they may not always be conscious of their value calculations, consumers determine how much they are willing to pay for a particular product or service according to a ladder of increasing benefits (Exhibit 13).

To move them up the ladder, companies must uncover consumers' latent dissatisfactions and introduce solutions that address them. So what themes are having broad appeal with recovering consumers these days? "My home is my castle." Products that make home more comfortable or entertaining — affordable appliances, take–home meals, board games — are increasingly popular. "I am making a smart choice." Consumers today need a good reason to part with their money. Companies can help by providing messages about product benefits that support consumers' need to be practical. "I feel underappreciated and on my own in this chaos". Women continue taking the lead in shopping for the household and they have shown higher levels of stress during the downturn.

Yet, many investments made today in product development will only bear fruit after the recession is long passed. So it is also critical to have a view on the post downturn landscape and what consumers will be looking for then. Delaying investments further will compromise a company's ability to capitalize on future opportunities.

Exhibit 13: The consumer value calculus is subtle and often unconscious



Source: Michael J. Silverstein, Treasure Hunt: Inside the mind of new consumer (New York: Portfolio Books, 2006).

e) Upgrade capabilities in capturing consumer insight

This downturn has changed consumers' shopping behaviors and their attitudes about spending. It is important for companies to look more closely at what has been the effect on their heavy spenders in their targeted markets and specific categories — and determine what products and services these high–value consumers are still willing to spend on. Everyone knows how important consumer insight is, yet many companies still find themselves woefully under–equipped to leverage insight as a competitive weapon. The winners coming out of the downturn will be companies that can develop a capability for consumer insight and integrate it directly into go–to–market decisions such as pricing and product development (Illustration 2).

Illustration 2: Hearing the consumer's voice

At the time when many consumers are being more deliberate in their buying decisions, it is critical for businesses to know as much as possible about the gears that really turn demand for their products and services.

Most companies recognize the importance of the market research function — commonly known as consumer in sight — but they are struggle to unlock its value. This was one of the findings of a recent BCG report, the consumer's voice — can your company hear it? The study benchmarked the consumer insight capabilities of 40 global companies by surveying more than 800 executives across a range of industries and conducting nearly 200 interviews.

While all companies see consumer insight as a major contributor to financial performance and growth, only 35 percent of the executives we surveyed in our study described their consumer–insight capabilities as best in class. Frustrations were evident among the recipients of market research — the line managers — add those who generate the output.

- ◊ When asked whether consumer insight teams consistently answer the question "So what" about the data they provide only 34 percent of line managers said that they do
- ◊ Fewer than half (41 percent) if insight staff thought that the business leaders in their organization could pass a pop quiz on important facts about consumers

If companies are not hearing the consumer's voice, it is often because they follow a hemmed–in approach to market research. Many companies structure their consumer insight functions as somewhat isolated units, walled off from critical business decisions about pricing or marketing, for example. Those who make sure that their insight organizations are best in class take a fundamentally different approach: their mandate spans the organization, and finding influence cross–firm decisions such as acquisitions, prioritization of brands and markets and resource allocation.

Budget affects the development of this function — only 28 percent of executives believed they spent enough on market research — but more money will not ensure better output. In fact, the best–practice companies spent less on consumer insight her full–time insight employee than other companies did. What matters most is how they spent it — not on tactical research (geared toward a specific project) but rather on probing, incisive research that can be translated into strategic implications for the business.

To capture the full potential of consumer insight, companies must focus on two factors. First, they need to improve the engagement model. This involves getting senior managers involved and expanding the scope of the function. Second, companies need to improve the performance of the consumer insight function by upgrading capabilities and talent and focusing the team on the right activates and deliverables.

f) Rethink the business model and develop alternate scenarios

Five years from now, most industries and sectors will look vastly different. As a result of cyclical and structural changes — some coming in the form of government interventions — companies in many industries will need to find fundamentally new ways to compete. Forces such as globalization, increasing environmental concerns, accelerating technologies, and protectionism, will create challenges for incumbents and opportunities for companies capable of seizing them.

Companies will need to consider how (and how fast) their business models and strategies need to change if they are to win in the long term. Is evolution or transformation required? Smart companies looking to prepare for a highly uncertain future will start thinking now about the various scenarios that could play out in their sectors. They will anticipate the skills and assets that will be required to win in different circumstances. We recommend developing at least three scenarios for the post downturn marketplace and understanding the changes in consumer needs that would result from each, in light of the likely pace and duration of the recovery. In order to stimulate 'out–of–the–box' thinking on how to respond, companies should consider including at least one scenario that seems improbably pessimistic to their companies management team. Quantify the impact of the scenarios on your business and your balance sheet. The next step would be to position products for possible long–term shifts in consumers' values, attitudes, and purchasing behaviors and allocating budgets for the long term.

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6/11