THE NEW INDIAN

THE RISE OF ASPIRATIONS AND MORE

India is poised to become the third largest consuming economy. Decoding the shape of this growth will prove to be as crucial as understanding the size of the opportunity. The traditional elements of income increase, urbanization and nuclearization will soon be supplemented by emergent trends that can reshape economic and social outcomes. Digital, as a megatrend, will impact the new Indian across all aspects of her life. As we evolve as a country, there is increased pride in being Indian. The traditional unit of analysis is shifting from the family to the individual. Women are increasingly becoming an important demographic force. One size will no longer fit all, as organizations will be forced to rethink their operating model. Understanding the new consumer and citizen is going to be critical to unlock India's potential.

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Kavita is a 35-year-old primary school teacher living in Nagpur. Her husband, Prakash, is an accountant working with a trading company. Together they earn about INR 90,000 per month. Their daughter Roshni, aged 8, attends an English-medium, ICSE School. They are all busy on weekdays, but do go out for lunch, movies, or for shopping on Sundays—Roshni calls it their 'funday'. The INR 90,000 income may not seem like a lot, but it is a big jump for Kavita, whose parents belonged to the lower middle class income segment.

Kavita grew up in a joint family in Ramtek, a small town near Nagpur, Maharashtra. Her father was a clerk with a public sector bank, while her mother was a housewife. Kavita's mother never went beyond primary school herself, but she made sure her daughter completed her graduation. She had to fight with the elders in the family for Kavita to do so. Roshni's dream is to study at a premier medical school and become a doctor. Kavita is already saving up so she can turn her daughter's dream into reality. This is not just Kavita's story. This is the story of millions of Indians whose lives have improved from a generation ago—with respect to areas like income and education—and who continue to aspire to a better standard of living.

Most of the narrative on the Indian consumer focuses on how the INR 83 trillion consumption economy is poised to grow in double digits so as to become the third-largest in the world in the next decade. No doubt, the numbers on the size of the consumer economy are mind boggling—the consumption by Indians has increased more than three-fold in the last 10 years and is poised for similar growth in the next decade, leading to a ten-fold increase in twenty years—a feat of this scale has occurred very few times in human history!

We believe that the full discussion on the above should not only look at the size of the opportunity, but also understand the shape of this opportunity and underlying consumer trends. The shape of the consumption function has changed and will continue to evolve in the coming decades. Some of these are secular trends from the past, increasing at a steady pace—and shall become noticeably significant in the next decade.

Rise of the 'affluent middle-class': Historically, and even in 2015, the largest set of Indian consumers have been those belonging to the 'next billion' income segment, accounting for 45% of the population and 39% of total spends. The Indian middle class—which held promise for many companies since the mid-90's—has been growing but has never been the largest segment. However, by 2025, the 'affluent' consumer segment will become the largest, accounting for about 40% of all Indian consumption, (up from about 26% in 2015). This segment resembles the global middle-class consumer, and would herald the rise of the Indian

EXHIBIT 2: THE CHANGING FACE OF INDIAN CONSUMERS

	2005	2015	2025
AFFLUENT[1] HOUSEHOLDS AS A % OF TOTAL	4%	8%	16%
SHARE OF AFFLUENT[1] HOUSEHOLDS IN TOTAL CONSUMER SPENDING	17%	26%	40%
% CONSUMPTION FROM TIER 2,3,4[2] CITIES	20%	27%	34%
NUCLEAR HOUSEHOLDS AS A % OF TOTAL	59%	70%	78%
AVERAGE HOUSEHOLD SPEND (INR LAKHS)	1.01	3.2	8.5

1. Annual household income > INR 10 lakhs at 2015 prices
2. Cities with population between 0.5 and 10 lakhs

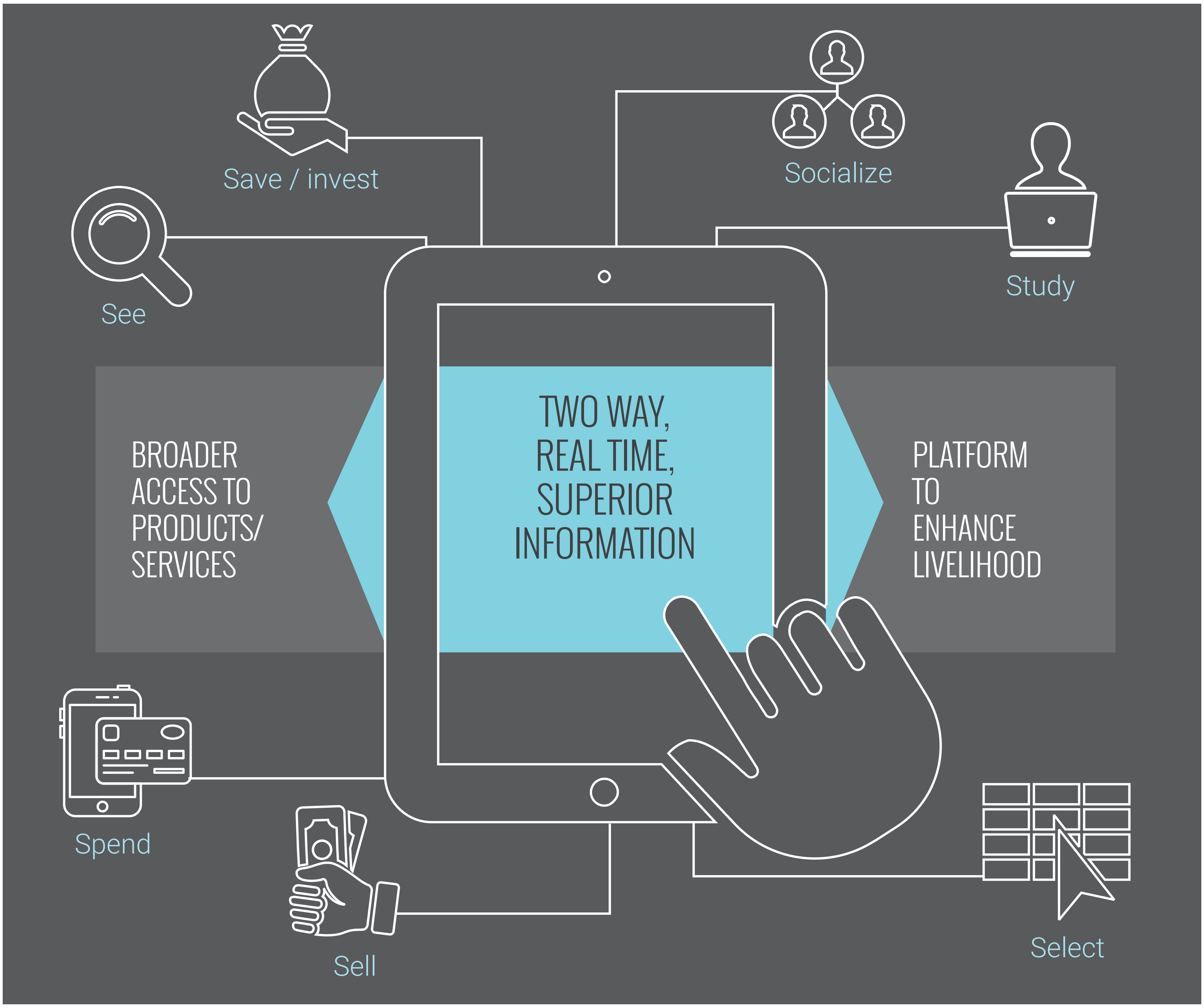
middle class in its most literal sense for the first ever time. (see Exhibit 2)

Shift in spending from basics to more: *Roti, kapda and makaan* have historically represented the largest expenditure for most Indians. Over the last few years, however, there have been two notable changes in consumer spend patterns. The first is a rise in the total amount spent on education, leisure and telecommunications, driven by both greater demand, as well a change on the supply side. The second is the shift toward better, higher-priced sub-segments in the same historical categories ranging from food to consumer durables.

Continuing rise of the urban: India's rate of urbanization has been very different from most other countries as it is not concentrated in a few cities, like in Indonesia or Thailand; not as fast as in China; and it is not as dispersed as in the US. It has been uniquely Indian. We estimate that about 40% of India's population will live in urban areas by 2025, accounting for more than 60% of the total consumption spends. Interestingly, it will be the rise of the many cities (city #50 to 500) and not mega cities that will account for a large part of this growth.

Rise in the nuclear family setup: The great Indian joint family may be the focus of Hindi cinema, but in reality, the rise of the nuclear family has been a slow and steady phenomenon. It has been driven by multiple factors. Today, nearly 70% of Indian households have a nuclear construct, representing a 13% increase over the last two decades. While this has many social implications, from

EXHIBIT 3: DIGITAL IS TRANSFORMING EVERYTHING WE DO



a pure consumption point of view, it presents a unique opportunity—for the same income level, nuclear families spend 20% to 30% higher per person than joint families.

Rise of the digital Indian: The third certainty after death and taxes

The trends mentioned above have been steadily increasing over the last twenty years but there is one big discontinuity that is a more recent phenomenon. Two decades earlier or even 10 years ago, no one could have imagined the impact of digital technologies on the average Indian. For starters, the numbers are astonishing. The total number of Indians with access to a cellphone is already close to a billion. The number of people in the country today with Internet access is already 300+ million-akin to the size of the US population. Over the next decade, this number is expected to rise to 800+ million.

This dramatic increase is going to be accompanied by a change in the profile of the average user. The first 100 million ‘digital Indians’ were largely men, urban, educated, earning higher incomes, and typically, young. The 400 to 500 million digital Indians are going to be the opposite—rural, mid-income, older with more women included. This digital democratization will have a profound impact on how Indians see, select, study, spend, save, socialize and sell. (see Exhibit 3)

Digital technologies will fundamentally change the nature of these interactions due to the following three reasons:

Two-way, real time, superior information: Digital channels are not only providing consumers with access to more information, but also bringing about a change in the nature of retail interactions. The content available today is better—whether on Wikipedia or customized 'webtainments'—with channels additionally facilitating near-real-time dialogue between retailers and consumers. In recent times, Indian policy makers have also increasingly started tapping the internet to directly connect with citizens—e.g. TRAI call for Net Neutrality, or tweets solicited by the Railway Ministry.

Broader access to products and services: Geography is now truly history. E-commerce websites generate a surprisingly high share of their sales from tier two and three towns, due to the access they provide to consumers in these locations. The Internet is also enabling Indians to gain access to global education and healthcare. In Ajab, Gujarat, students take mathematics classes online from a teacher sitting hundreds of miles away, while villagers in Tamil Nadu now have remote access to professional advice on cataract problems.

Platform to enhance livelihood: Sufiyan Khatri, an artisan from Ajrakhpur in Kutch, has expanded his business manifold through his Facebook page. Milaap, an online crowdfunding platform, has raised INR 800 million to fund several poor working Indians. Such digital platforms thus are empowering several entrepreneurs and artisans to enhance their selling, marketing and financing functions. The potential for these platforms also lies much beyond the usual 'buy and sell' construct.

We believe that while the digital tsunami will have a significant impact on Indians as consumers, it holds transformational potential for Indians as citizens as well, across the framework described above. We have seen early signs of this in the way government-citizen interactions are changing, whether in the form of online redressal platforms or railway ministry tweets. At a fundamental level, the digital wave has changed the country's administration model from a pure supplicant and provider system to one that resembles a true democracy.

New trends emerge with the potential to explode

Pride in being Indian: A couple of decades ago, many Indians looked forward to relatives visiting from abroad, bearing gifts like chocolates, perfumes and even shoes. How times have changed! Today around 60% of Indians are willing to pay extra for products made in India. The Generation I, whose formative years began after 1991, has never experienced an era of rationing. They are more confident about their country as well as their own capabilities.

There are different ways in which this national pride has started manifesting itself. Across categories, there is an increased curiosity and excitement around exploring local roots, as evidenced by growing consumer interest in natural products in personal care, local flavors in packaged food and hand-woven fabrics in clothing. The bindi is back in vogue—it has been listed among the top 10 all-time global political fashion statements by TIME magazine. Forest Essentials has grown to be a premium personal care brand and is now going international after a stake purchase by Estée Lauder. FabIndia is potentially the single largest and most profitable retail apparel brand in the country.

Half the sky—gaining its rightful share: The recent performances of Sakshi Malik and PV Sindhu in the Rio Olympics, are probably the best examples of how the role of women in India is changing. Indian women, across urban and rural areas, are exercising greater influence. Several forces are driving this shift–changing family structure, electoral reservation for panchayats, improved healthcare and greater media reach and focus. We believe the most important factor is a transformation in women's educational levels, which has changed dramatically. The enrolment rate for girls in secondary education has increased from 45.3% to 73.7% between 2005 and 2014 and is now higher than the 73.5% for boys. Even in higher education, girls have bridged the gender gap, with the enrolment level now at 19.8%, as against 22.3% for boys. Traditionally, the school-dropout rate (for standards I to X) used to be much higher for girls, but now it is lower than that for boys. The academic performance of girls has anyway always been better than that of boys!

Apart from greater literacy levels, this trend will have a much wider impact, ranging from changed workforce demographics, greater economic independence for women and other social changes. This is not going to be a sudden change, but more like a steady, tectonic shift.

The (almost) I, me, myself generation: While nuclear families may seem to be the new normal, the future could see a further shift in how one thinks about family. We believe that India could see a second wave of transformation—from nuclear households, to singles. There has been a steady increase in the number of people in the workforce who are still single. The average age of getting married went up from 22.6 to 28 for boys and 18.3 to 22.2 for girls between 2001 and 2011. The number of single women above 20 has increased by 40% over the same period. While this is largely a metropolitan phenomenon sofar, it has started percolating to second tier cities as well. This change has implications not only for household sizes, demographics and the economics of income and expenses, but also for the very definition of family. Anecdotal evidence and parallels from other countries indicate that these singles, who are at one level, more individualistic, also think of communities (physical and virtual) and causes (social or political) as proxies for families.

A new reality: Reinvent or fall behind

That India is poised to become the third largest consuming economy is clear. It is understanding the shape of this growth that will prove to be crucial. As we described earlier, while some elements of the past will continue, there are big shifts that cannot be ignored. These raise fundamental questions that organizations need to address.

Catering to different price tier segments: For the first time across most Indian categories, there would be scale markets across price tiers. How should organizations think of their business models / organizations to cater to these opportunities?

Addressing changing societal vicissitude: There are many societal / sociological changes happening in India—the changing role of women, increased individualism, differing role of family, national pride, etc. It is clear that these need to be addressed beyond just changing the image or punchline in the advertisement. How should organizations capitalize on these emerging vagaries?

Rethinking notion of market and competition: The digital world has created a paradigm shift where the conventional view of market access and traditional competition is being truly disrupted by differing offers and new players. How should organizations think about market / segment / competition definition?

Rebalancing the power equation: The nature of relationship between the consumer and the company, the state and the citizen is changing. Greater transparency, reduced information asymmetry and increased voice of the individual (magnified via the digital-social medium) has resulted in a situation, where the balance of power is tipping away from large organizations. How should companies and governments engage with the new consumer and new citizen in a truly democratic context?

As we look ahead, one thing is clear: The new Indian is different; who they are, what they believe, why they choose, where they shop and how they buy. Companies and governments alike will need to fundamentally reinvent themselves and create new rules of engagement to truly win in this new reality.

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