The Tiger Roars
Capturing India’s Explosive Growth in Consumer Spending
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Capturing India’s Explosive Growth in Consumer Spending

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India has a large and growing consumer market, but the expanse and diversity of the country make the shape of future growth difficult to predict. Companies can begin to capture this market only by understanding it.

**The Size of the Prize**
India’s consumer market is poised to grow 3.6 times between 2010 and 2020, faster than most other emerging markets.

**Understanding the Prize**
Rising household income, urbanization, the shift away from the traditional joint-family structure, and the coming of age of “Gen I” all contribute to the growth.

**Finding the Prize**
Seven segments define the consumer landscape in India on the basis of income, location, education, and occupation.

**Capturing the Prize**
Companies need to invest in India, but they also have to develop a deep understanding of the nation in order to win it.
Both the size and shape of the consumer market in India are fundamentally changing. While the dramatic growth of the market is known, it is not well understood. In a nation as large and diverse as India, there are nearly as many estimates of the growth of its consumer market as there are official languages, and questions abound on whether such growth is sustainable.

The shape of that growth—the changing patterns of and attitudes toward consumption—is even less well understood. Most notably, a new generation of consumers has grown up in an era of economic liberalization and social freedom. The members of this generation are entering their prime spending years, and they will indelibly and dramatically reorient the market. Call them “Gen I.” “I” stands for India, independence, and individuality.

In order to understand Gen I and the broader consumer trends in India, we looked at the market from both the top and bottom, combining a macroeconomic perspective with on-the-ground consumer research. We sought to answer four fundamental questions:

- How large is the prize?
- Why is it so large?
- Where, in the amazing diversity of India, is the prize?
- How can companies capture it?

India is the second-fastest-growing major consumer market in the world. These are important questions for any company with global aspirations.

The Size of the Prize

The consumer market in India is surging forward. Buoyed by a strong economy, rising household income, and socioeconomic forces, overall consumer spending is likely to expand 3.6 times—from $991 billion in 2010 to $3.6 trillion by 2020—a 14 percent annual growth rate, or 8 percent in real terms. (See Exhibit 1.) This is much faster than the anticipated nominal growth rate in consumer spending globally of 5.5 percent and faster than the 9 percent average annual growth rate expected for emerging economies between 2010 and 2020. By 2020, India will constitute 5.8 percent of the world’s total consumer spending—significantly higher than the 2.7 percent it represents now.
The growth suggests a nation of ambition and pent-up demand. Discretionary purchases such as skin care products, travel, and social events (weddings and parties, for example) are among the products and services that will grow most swiftly through 2020. Education and leisure will be the second-fastest-growing category, a reflection of the nation’s young population, devotion to children, and improving standards of living.

The three largest spending categories today—food, housing and consumer durables, and transportation and communication—will remain at the top in 2020. But the nature of the spending within these categories is in flux.

Food makes up nearly one-quarter of all consumer spending. While the category is growing more slowly than others, both the quantity and quality of the food that Indian consumers eat will improve. Average daily intake is likely to rise from 2,700 calories in 2010 to between 3,015 to 3,400 calories in 2020, after staying flat or even declining in rural areas over previous decades.

Growth in spending on housing and consumer durables is being powered by young consumers investing in new, larger homes.
Transportation and communication, the third-largest spending category, is likely to grow nearly as quickly as education and leisure. A revolution in telecommunications is under way in India. Mobile penetration surpassed fixed land-line penetration in 2004 and, at 64 percent today, is far higher. With the basic infrastructure in place, new forms of mobile-phone usage, especially mobile payments and banking, will rise dramatically over the next decade. The rapid expansion in the market for two-wheelers and passenger cars and the arrival of low-cost airlines and budget hotels have given Indians a taste of modern transportation. Over the next decade, more consumers will enter this market, and existing consumers will start to trade up to higher-priced options.

Spending on clothing and footwear is expected to reach $225 billion by 2020. In a nation in which modern retail formats account for less than 10 percent of overall retail sales, more than two-thirds of all footwear sales and almost one-third of apparel sales occur in modern stores. This preference suggests that consumers are looking for new and more varied shopping experiences.

The rise in health care spending, from $49 billion in 2010 to an expected $183 billion in 2020, will be fueled by a growing emphasis on wellness and nutrition and the rise in “lifestyle” diseases. Lack of proper nutrition is a serious problem in rural markets, where 51 percent of children are “stunted”—too short for their age—and 46 percent are underweight. Overall, a third of the adult population is below normal weight.

But as incomes rise, obesity is emerging as a health concern. About 9 percent of men and 13 percent of women are overweight. By 2020, the incidence of diabetes and hypertension will approach the levels in such nations as the U.S. and the U.K.

Understanding the Prize

The growth in consumer spending is grounded in the interplay of four powerful socioeconomic and demographic forces. Companies need to make sense of where they can win in such a large and vibrant nation.

**Household Income.** India’s income pyramid has typically had a wide base of “struggler” households and increasingly smaller layers as incomes rise. This pyramid is quickly becoming a diamond, as household incomes grow. (See Exhibit 2.) More than one-third of the population is likely to reach the “aspirer” (or even a wealthier) class by 2020, compared with 20 percent in 2010 and 9 percent in 2000. (See “Finding the Prize,” below, for an explanation of strugglers, aspirers, and other categories; for details about methodology, see the Appendix.) At the same time, the share of households classified as strugglers—earning less than $3,300 today—will likely fall from 51 percent in 2010 to 28 percent by 2020.

**Urbanization.** In 2010, 31 percent of India’s population lived in cities. By 2020, that percentage will rise to 35 percent. As people move from rural areas to cities, they tend both to increase their purchases and to spend on different items. Urban dwellers have better access to goods and are exposed to greater consumerism. For example, 80 percent of urban households own a television, while only 39 percent of
rural households do, and 25 percent of urban residents consume packaged instant noodles, compared with just 3 percent of rural residents.

**The Nuclear Family.** As young people leave the flock, households are becoming less traditional and spending more per capita. The share of “nuclear households”—defined as a couple or a single person, with or without children—rose from 61 percent in 2006 to 66 percent in 2010. The per capita spending of nuclear families is between 20 and 50 percent higher than it is for traditional joint families—which comprise extended-family members—in the same household-income group. While per capita spending on food and health is comparable in nuclear and joint families, nuclear families spend much more on clothing, housing, education, and leisure activities. In our research, we met several joint families that buy the cheapest possible option for regularly used household products and avoid paying widely varying prices for products that are individually consumed, such as toys for children or cosmetics and apparel for adults.

**Gen I.** As they hit their prime consumption years, this generation of Indian spenders will reorient the consumer market as dramatically and as deeply as baby boomers have altered U.S. consumption patterns over the past five decades.

Economic liberalization in 1991 marked a turning point in India’s ascendance. Members of Gen I were in their early teens at that time, so they have witnessed firsthand the opening of markets, the influx of foreign brands, and the creation of wealth. They have different beliefs and have made different choices than their parents. (For more on the clash between generations, see the sidebar “All in the Family.” All the sidebars
Members of Gen I believe in living in the present and indulging themselves more than their parents do. Thus, the beauty and personal-care market has grown almost 20 times over the past 20 years. The Gen I’ers have far greater choice than prior generations. The number of car models, for example, has jumped from about 5 in 1990 to more than 160 today. These consumers are also worldlier, with greater exposure to global events and trends, making them much more demanding. The number of Indians traveling abroad has jumped sixfold since 1990 to 12 million annually, and the number of television channels has exploded, from 1 to more than 500.

At home, members of Gen I feel less constrained by scarcity and the limitations of the nation’s infrastructure. Two-thirds of all households have electricity, compared with just 42 percent before liberalization. As Gen I’ers have gained confidence in their economic future, their willingness to rely on credit has increased. Outstanding

### ALL IN THE FAMILY

Chandrakant Pawar, 51, lives in a two-bedroom apartment in Mumbai with his wife and 25-year-old son, Nikhil. The attitudes and behaviors of father and son exemplify the differences between members of Gen I and their parents.

Chandrakant owns an automotive-components business providing an annual income of $11,000 and a comfortable lifestyle. Over the weekends, he and his wife invite friends over for tea and snacks. He shops in the mall with his wife but rarely makes impulse purchases, does not use a credit card, and is wary of loans generally. “I will never take a loan. I will delay the purchase, but never take a loan. What if I can’t repay? What will happen to my respect in society?” he says.

He is reluctant to spend $30 for a pair of shoes. While he is amazed by the choices he has when he shops these days, he prefers to buy only brands he knows and trusts. Chandrakant goes on the Internet only monthly to check stock prices, preferring to get his news from newspapers and magazines.

His son has an MBA and earns $13,000 annually working for an oil trading company. Nikhil likes to wind down on the weekends by going for coffee and shopping at the malls with friends. Unlike his father, Nikhil makes weekly impulse purchases, such as a $100 pair of shoes or a $400 watch. “I go shopping and feel good about it. I feel happy when I spend money over the weekend after working hard all week,” he says.

He likes the convenience of credit cards and would be willing to take out a loan to buy a house or car. Like his father, Nikhil likes the choices in stores. But he is much more willing to change brands and buy premium products. Nikhil spends seven to ten hours a week on the Internet. He looks for online deals for products and stays in touch with friends abroad through Facebook and e-mail.
retail loans have jumped from $7 billion in 1996 to $167 billion in 2011. This meteoric growth suggests that India is on the steep slope of rapid change.

These consumers are increasingly becoming the public face of the new India—emblems of national optimism, energy, and growth.

**Finding the Prize**

India is a tremendously diverse nation—23 official languages, about 100 unofficial languages, 1,600 dialects, eight major religions, and a land mass of more than 3.2 million square kilometers. Companies frequently segment consumers based solely on income, which inadequately addresses India’s diversity. We have identified seven consumer segments in India on the basis of income, location, education, and occupation to help make sense of the vast differences, even among people with similar incomes. (See Exhibit 3.)

- **The Professional Affluent and Traditional Affluent.** The affluent have an annual household income of $18,500 or more. By 2020, India’s affluent class will be larger than the entire population of Canada. Among affluent households, education and occupation help define consumption patterns and attitudes, creating two distinct segments: professional and traditional. The professional affluent have graduated from college and work as executives, managers, or for themselves. They are more likely to rely on credit and to be Internet savvy than the traditional affluent. About 73 percent of professional-affluent households have an

![Exhibit 3 | Seven Segments Define Consumers in India](image-url)

**Sources:** Euromonitor; National Sample Survey Office; BCG proprietary research of 6,300 consumers: BCG analysis.

**Note:** The population of metropolitan areas exceeds 4 million. The population range of tier 1 cities is 1 million to 4 million; of tier 2 cities is $500,000 to 1 million; of tier 3 and 4 cities is 10,000 to 500,000; and of rural areas is less than 10,000.

*The elite class, whose members earn more than $37,000 annually, is grouped with the affluent class.*
outstanding loan and 60 percent have Internet access, compared with 50 percent and 34 percent, respectively, for the traditional affluent. (For more on these segments, see the sidebars “The Professional-Affluent Class: Satisfied and Occasionally Indulgent” and “The Traditional-Affluent Class: Conservative and Future Oriented.”)

- **Urban Aspirers and Rural Aspirers.** The aspirer class has an annual household income greater than $7,400 and less than $18,500. Within the aspirer class, location is the great divide, with urban and rural being the key segments. (Rural areas are defined as those with population centers of 10,000 or less.) Members of the urban-aspirer class, for example, have higher ownership of basic durable goods and exhibit greater optimism about the future than their rural counterparts. Two-thirds of the urban-aspirer class owns a basic television, a single-door refrigerator, and a liquefied-petroleum-gas stove, while less than one-half of rural households do. Two-thirds also believe their standard of living will be better in two years than it is now, while only 53 percent of members of the rural-aspirer class share that sentiment.

- **Large-Town and Small-Town/Rural Next Billion.** Households in the next billion—a group that The Boston Consulting Group has identified as an emerging force and has been closely tracking for more than five years—have incomes between $3,300 and $7,400. Within the next billion, there are large differences in behavior between the large-town and small-town/rural segments. (A population of 500,000 separates the large-town segment from the small-town/rural segment.) Large-town next-billion households, for example, exhibit greater financial sophistication, with 80 percent having at least one bank account, compared with 63 percent of the small-town/rural segment. Also, only 6 percent of their total savings are in cash compared with 18 percent for the small-town/rural next billion.

- **The Strugglers.** The bottom segment of households, which earn less than $3,300 annually, have less than 25 percent of their income left for discretionary spending after meeting the necessities. Location does not play a large role in the spending patterns of this segment.

This segmentation helps reveal many insights about the Indian consumer market. In the largest cities, for example, the affluent and aspirer classes control about three-quarters of all consumption. Professional-affluent households outspend traditional-affluent households by a 65 percent to 35 percent margin in big cities. In smaller cities, the affluent segments dominate spending less dramatically because there is such a concentration of next-billion households. In rural areas, where more than two-thirds of India’s population still lives, the strugglers remain the largest consumer segment.

In the future, the size and spending of these segments will shift significantly, especially at the top and the bottom. In 2010, the professional-affluent class made up 4 percent of Indian households. By 2020, that share will rise to 8 percent, and this segment will be responsible for 26 percent of consumption, up from 16 percent in 2010. By contrast, spending by struggler households will decline from 26 percent.
**THE PROFESSIONAL-AFFLUENT CLASS**
*Satisfied and Occasionally Indulgent*

**Household:** Deepak and Ritu Lalvani, ages 35 and 32; son, 6

**Occupation:** Deepak is a senior sales manager at a leading paint company; Ritu works in the administration department of a trading company.

**Home:** Own a two-bedroom apartment in Mumbai

**Annual household income:** $40,000

**Spending as share of income:** 50 to 60 percent

**Household budget**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>20%</td>
</tr>
<tr>
<td>Education and leisure</td>
<td>20 to 25%</td>
</tr>
<tr>
<td>Clothing</td>
<td>10 to 15%</td>
</tr>
<tr>
<td>Transportation and communication</td>
<td>10 to 15%</td>
</tr>
<tr>
<td>Housing</td>
<td>20%</td>
</tr>
<tr>
<td>Health</td>
<td>5%</td>
</tr>
<tr>
<td>Other (including loan payments):</td>
<td>15 to 20%</td>
</tr>
</tbody>
</table>

**Favorite brands:** Body Shop and Adidas shower products, Surf Excel detergent, Lizol floor cleaner, Olay face cream, and Oreo and Good Day biscuits

**Favorite grocer:** Big Bazaar, Saha-kari Bhandar, Reliance Fresh

Deepak and Ritu have been working at their respective jobs for five to six years and are very satisfied with their careers. They want their son to be an aeronautical engineer and have already begun to save for his education. Deepak is comfortable taking out loans—he just repaid his auto loan—and he and Ritu both regularly use credit cards.

Deepak and Ritu like to indulge. They have a vacation home in Lonavala and take at least one overseas trip a year. They like to dine out and to watch movies in the premium Red Lounge at the nearby Cinemax, which offers recliners and food service. They also go to spas for massages. Ritu likes to use luxury brands such as Estée Lauder.

Ritu is particular about brand and seeks out the best available. She sticks to premium brands like Olay and Body Shop for personal-care products. In order to clean stubborn stains on her son's clothes, she uses Vanish.

The family owns a wide range of branded durables: a Sony television, Whirlpool refrigerator, Samsung washing machine, and BlackBerry mobile phone. They also own three air conditioners, a coffee maker, a microwave, a water purifier, a vacuum cleaner, and a video camera. Deepak will only buy a Sony or Samsung TV.

Deepak and Ritu use the Internet at home and at work and through their mobile phones. Their son has been using a computer since he was five years old.

They have investments in mutual funds, stocks, land, and gold and an insurance policy for their child.
THE TRADITIONAL-AFFLUENT CLASS
Conservative and Future Oriented

**Household:** Vivek and Supriya Chavan, ages 39 and 37; daughter, 14; Vivek’s mother, 62

**Occupation:** Vivek is a trader of iron and steel rods; Supriya is a homemaker.

**Home:** Own a three-bedroom apartment in Mumbai

**Annual household income:** $35,000 to $40,000

**Spending as share of income:** 45 to 50 percent

**Household budget**
**Food:** 20 percent

**Education and leisure:** 15 to 20 percent

**Clothing:** 10 to 15 percent

**Transportation and communication:** 10 to 15 percent

**Housing:** 10 to 15 percent

**Health:** 5 to 10 percent

**Other (including loan payments):** 10 to 15 percent

**Favorite brands:** Cinthol, Himalaya, and Pears soap, Rin detergent, Amway floor cleaner, Olay face cream, and Pickwick and Britannia biscuits

**Favorite grocer:** D-Mart for monthly shopping and local shops for quick purchases

Vivek has been running his business for more than 15 years, providing a nice life for his family. They own two houses, both bought without a mortgage. They have credit cards but use them rarely, when traveling out of town.

Vivek and Supriya prefer to entertain friends at home on the weekend rather than going out. They mostly vacation in India, although they once visited family in Muscat, the capital of Oman.

Vivek does not like to spend money on expensive brands for clothes and personal care. His wife, however, likes to buy some expensive brands, such as Olay for skin care. Supriya also does not like to experiment much with brands. She has been using Sudama basmati rice for more than 12 years. Her daughter has started selecting brands for herself. She likes Pears soap and Dove face wash, while Supriya buys Cinthol and Himalaya.

The family owns a wide range of durables at home: a Samsung television and air conditioner, a Sansui DVD player, a Godrej washing machine, and an LG Microwave. Vivek would never buy an unbranded major appliance.

Vivek makes limited use of the Internet, mostly just to check e-mail at work. He has access to the Internet on his mobile phone, but he rarely uses his phone for that purpose. He banks at the local branch, not online. Supriya never uses the Internet, although her daughter is encouraging her.

They have investments in gold, which Vivek considers to be safer than other alternatives.
in 2010 to only 11 percent by 2020. (See Exhibit 4.) Small towns and rural areas will make up 62 percent of overall consumer spending in 2020.

Companies approaching India will have to look through all these lenses, and not just at income, to locate their sweet spots and ensure that their products, marketing, and pricing are appropriate for the segments they wish to target.

Capturing the Prize

Given the growth in household income and consumer spending, global companies with growth ambitions must make India a priority. They need to create products and services for India and develop products and services in India. They cannot conduct business by export and expect to win. Domestic companies, on the other hand, cannot sit on their past success and expect to rise with the expansionary tide. India is becoming a hotbed of competition.

Two “mantras” will help companies win in the Indian consumer market.

**Develop a nuanced view of the market and fine-tune approaches.** Companies need to approach India on India’s terms and not rely on an entrenched understanding of other consumer markets. In India, the interplay of income, location, education, and occupation have helped form the seven consumer segments profiled earlier and should inform companies as they try to reach their target consumers within these segments.
• **Consumption Patterns.** Affluent households tend to have much higher discretionary spending than other income groups, often spending liberally on transportation, communication, and clothes. Both the traditional- and the professional-affluent segments devote at least 10 percent of their spending to clothes, compared with just 7 percent or less for the other segments. The share spent on food declines with income. The two affluent segments spend 20 percent or less on food, but it remains the largest category for aspirer, next-billion, and struggler households, ranging from 31 percent to more than 40 percent. (See Exhibit 5.)

• **Lifestyle.** Ownership of basic and advanced durable goods often breaks along urban and rural lines rather than income. These goods are more readily available in urban areas, suggesting that access to goods may trump income as a purchasing indicator. Fifty-six percent of large-town next-billion households own basic durable goods, for example, while just 49 percent of wealthier rural-aspirer families do. For advanced durable goods, the ownership level is 16 percent for the large-town next billion and just 13 percent for the wealthier rural-aspirer class.

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**EXHIBIT 5 | Consumption Varies Across Segments**

<table>
<thead>
<tr>
<th>Discretionary spending as share of total spending</th>
<th>48%</th>
<th>43%</th>
<th>32%</th>
<th>28%</th>
<th>27%</th>
<th>28%</th>
<th>23%</th>
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<tbody>
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<td>Percentage of total spending</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Professional affluent</td>
<td>15%</td>
<td>7%</td>
<td>25%</td>
<td>5%</td>
<td>20%</td>
<td>10%</td>
<td>17%</td>
</tr>
<tr>
<td>Traditional affluent</td>
<td>17%</td>
<td>6%</td>
<td>25%</td>
<td>4%</td>
<td>19%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Urban aspiers</td>
<td>12%</td>
<td>7%</td>
<td>21%</td>
<td>5%</td>
<td>16%</td>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>Rural aspiers</td>
<td>12%</td>
<td>9%</td>
<td>19%</td>
<td>5%</td>
<td>4%</td>
<td>19%</td>
<td>7%</td>
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<tr>
<td>Large-town next billion</td>
<td>10%</td>
<td>5%</td>
<td>17%</td>
<td>4%</td>
<td>7%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>Small-town/rural next billion</td>
<td>12%</td>
<td>7%</td>
<td>19%</td>
<td>5%</td>
<td>5%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>Strugglers</td>
<td>13%</td>
<td>5%</td>
<td>14%</td>
<td>5%</td>
<td>12%</td>
<td>14%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Sources:** BCG proprietary research of 6,300 consumers; BCG analysis.

**Note:** Some percentages do not add up to 100 because of rounding.
1 Discretionary spending includes packaged food, private transportation, mobile and Internet charges, personal care, entertainment, clothing, salaries for household help, holidays, consumer durables, information technology, house renovations, new houses, automobiles, festivals, and social events.
2 Includes personal care, baby care, loan payments, holidays, and social gatherings.
3 Includes Internet access and entertainment.
4 Includes utilities, household products, household help, consumer durables, home renovations, and rent.
5 Includes alcoholic beverages and tobacco but excludes food sold in restaurants, hotels, and kiosks.
To accommodate this tendency, manufacturers may find themselves supplying basic products to first-time buyers, largely in smaller towns and rural areas, as well as replacement products to consumers of similar income levels in more populated areas. Demand for cathode-ray televisions, for example, will persist in India along with the rapid growth of flat-panel sets, bucking the trend in similar markets dominated by more advanced TVs. (For more on these spending trends, see the sidebars “The Rural-Aspirer Class: High Aspirations, Cautious Spending” and “The Urban-Aspirer Class: Smart Spending, Trading Up.”)

- **Attitudes and Behavior.** Urban residents tend to be more confident than rural residents that their finances and standard of living will be better in two years than they are now. They are also more technologically sophisticated and have greater brand loyalty. Fifteen percent of urban-aspirer-class consumers, for example, use the Internet, but only 4 percent of rural-aspirer-class residents do. Likewise, in nine different product categories, 21 percent of urban aspirers prefer to buy the same brand, while only 10 percent of rural aspirers do.

- **Financial Maturity.** Higher-income segments have more diverse investment portfolios, with both debt and equity securities, while lower-income households usually invest only in fixed-income instruments. Outside of the affluent segment, very few Indian households currently have an outstanding loan. Even among the higher-income segments, however, use of the Internet and mobile banking remains low, with only between 8 and 12 percent of households engaging in either activity.

By learning about the differences in behavior across consumer segments, companies can begin to devise strategies to capture the Indian opportunity.

**Understand the underlying trends shaping the evolution of consumption.**

Indian consumers are on the go. In order to capture the dynamism of the consumer in India, we examined a long list of trends and identified five nascent consumer themes that are not yet as well understood as other more widely discussed trends.

- **Children: Driving Consumption Growth.** Children are at the center of family life in India. Children age 18 and under will make up 34 percent of the population by 2020. They are increasingly playing three key roles in household consumer spending. First, they drive the adoption of new product categories. More than 50 percent of households that buy ice cream and health-food drinks say they do so for their children. Second, kids influence brand choices. For personal-care products, for example, 46 percent of families say that their children are a primary influence on the brands that they buy. Third, kids often generate “disguised” consumption—adults consuming products purportedly purchased for children. More than half of households report that adults consume biscuits, fresh fruits, and personal-care items originally bought for children.

- **Riding the Internet Wave.** Internet use in India largely flies under the radar screen of official statistics. India has around five to six times the number of Internet users as subscribers, reflecting the common usage of the Internet in cybercafes, in friends’ homes, and elsewhere. This usage pattern is widely
THE RURAL-ASPIRER CLASS
High Aspirations, Cautious Spending

**Household:** Darpan and Nikita Yadav, ages 40 and 37; three sons, 14, 12, 11

**Occupation:** Darpan is a wholesaler of staples in the village; Nikita is a high-school teacher.

**Home:** Own a three-bedroom house in Barabanki, Uttar Pradesh

**Annual household income:** $8,500

**Spending as share of income:** 75 to 80 percent

**Household budget**

**Food:** 30 to 35 percent

**Education and leisure:** 10 to 15 percent

**Clothing:** 5 to 10 percent

**Transportation and communication:** 10 to 15 percent

**Housing:** 10 percent

**Health:** 5 percent

**Other (including loan payments):** 5 to 10 percent

**Favorite brands:** Pears soap, Rin and Wheel detergent, Lakme face cream, and Britannia biscuits

**Favorite grocer:** Local shops

Darpan has been running his wholesale-staples business for 15 years. He and Nikita are cautious about spending so that they can fund their future dreams. Darpan is planning to expand his business into packaged goods to meet growing demand, and Nikita wants to open a beauty parlor at home.

In the near term, they want to renovate their house, buy a washing machine and a computer, and replace their black-and-white TV with a color model. They have been saving money to meet these goals instead of taking out a loan.

Darpan and Nikita usually shop monthly at local merchants. Although Nikita has a set of brands she prefers, she is open to alternative suggestions—except in the case of cooking oil and soap. She will only buy Nature Fresh oil and Pears soap.

The family never eats out in a sit-down restaurant but will occasionally stop for fast food when shopping. During school holidays, they often travel to visit relatives and attend family functions.

The Yadavs own mostly basic durables: an LG television, Whirlpool refrigerator, and Samsung mobile phone. Darpan believes that the quality of branded electronic equipment is higher, and he will accordingly pay higher prices. The family is planning to buy a computer next year so that the children do not have to visit friends to complete their computer-related schoolwork. Darpan has used the Internet on his mobile phone but did not find the experience worthwhile. He prefers to visit a bank branch for basic transactions rather than to consider mobile banking.

The family has insurance for their children, a modest savings, an inherited piece of land, and gold and silver.
THE URBAN-ASPIRER CLASS
Smart Spending, Trading Up

Household: Anwar and Neelima Agarwal, ages 39 and 30; two sons, 11 and 9

Occupation: Anwar is a high-school teacher; Neelima is a homemaker.

Home: Two-bedroom apartment in Ghaziabad, Uttar Pradesh

Annual household income: $8,500 to $9,000

Spending as share of income: 70 to 80 percent

Household budget
Food: 30 to 35 percent

Education and leisure: 15 to 20 percent

Clothing: 10 to 15 percent

Transportation and communication: 10 to 15 percent

Housing: 10 to 15 percent

Health: 5 percent

Other (including loan payments): 10 to 15 percent

Favorite brands: Aashirwad flour, Dove and Lifebuoy soap, Tide and Surf Excel detergent, Domex floor cleaner, and Garnier face cream

Favorite grocer: Local shops

While the Agarwal family lives comfortably, Anwar is always on the lookout for better job opportunities in other schools. His dream is to buy his own house. Anwar and Neelima also want to buy a car and better brands of clothes.

Neelima buys national grocery brands. She likes to experiment with different brands but will only buy Garnier skin-care products. She also trades up and down within categories, buying the pricier Vim dishwasher detergent for herself and the less expensive Pitambari cleaner for her maid. She buys branded clothing for her children but not for herself or Anwar.

The family likes to go to malls and to Big Bazaar, a department store, both as a form of entertainment and for their convenience. They sometimes buy on impulse, usually for their children. They always eat out on Sundays, but enjoy cooking at home on other days and plan to buy a microwave soon to make Italian food. They take five trips a year with friends and have traveled to Srinagar, Himachal Pradesh, and throughout south India.

Their home is comfortably furnished with a TV, refrigerator, washing machine, mobile phone, computer, blender, digital cameras, air conditioner, and water purifier, all from large brands such as LG, Haier, and Nokia. Anwar goes online to pay bills, renew life-insurance policies, and conduct banking transactions. He also banks and e-mails on his mobile phone. The children use the Internet for school and for fun.

Anwar and Neelima invest in several different savings instruments. Although they own some gold, they do not consider it to be the best investment.
distributed across age groups, income and geographic segments, and gender. The rapid adoption of smartphones and decreasing handset prices will likely expand Internet penetration substantially over the next several years, pressuring companies to create mobile-brand and mobile-marketing channels.

- **Trading Up.** The desire to trade up in India is among the highest in the world. In fact, 34 percent of Indian consumers trade up to goods that offer higher quality, better functionality, or stronger brand appeal, compared with between 14 and 18 percent in developed economies. Consumers across all income segments, even the next-billion and struggler classes, tend to trade up for personal-care and food items.

- **Brands: Strong Recognition, Weak Loyalty.** Two-thirds of all consumers say that they care about brands in at least six of the nine consumer-product categories surveyed. But while consumers are gravitating toward brands, they have not necessarily locked in on a favorite brand. In fact, more than half of all Indian consumers choose from a basket of brands when they shop rather than seek out a specific brand in the nine consumer-goods categories. Only 8 percent buy the same brand consistently.

- **Healthy Living.** Indians are becoming more health conscious. Around 70 percent of families say that they have adopted healthy habits, a finding consistent across income and geographic segments. But despite the rising concern about health, consumers do not necessarily know how to stay healthy. The majority of these consumers are simply trying to eat well, but most of them are not exercising.

The resonant roar of the Bengal tiger is a fitting metaphor for consumer spending in India. Drovers of wildlife enthusiasts venture into the country’s tiger reserves each year in search of the national animal. Only a few patient and persistent people actually succeed in seeing it. Consumer spending in India will continue to roar, but the companies that try to capture it without adequate preparation will likely fall short. India’s is a big and growing consumer market, but not an easy one. Understanding the size and shape of the prize and where it is hidden in the crazy-quilt fabric of India are the first steps to capturing it.

Notes

1. Basic durable goods include a DVD player, kitchen sink, pressure cooker, liquefied-petroleum-gas stove, basic television, single-door refrigerator, and two-wheel vehicle. Advanced durable goods include a cooking range, dishwasher, electric exhaust fan, electric water purifier, microwave oven, camera, video camera, computer, home Internet access, LCD or plasma TV, double-door refrigerator, washing machine, four-wheel vehicle, and air conditioner. If every household owned each of the products surveyed, 100 percent penetration would be achieved.

2. The nine product categories are baby care, detergents, home care, packaged beverages, packaged goods, personal care, skin care, snack foods, and staples.
Appendix: The Income Quandary

Reliable statistics on income are hard to come by in India. Individuals tend to over- or underreport their income in surveys for a variety of reasons. Depending on the source, total disposable income ranges from $800 billion to $1.6 trillion, and the number of households classified as strugglers—with gross annual incomes of less than $3,300—vary greatly.

These differences matter for companies that want to size a market or project sales. To overcome the limitations of existing methodologies, we triangulated and tested the various income distributions of India against numerous statistics. Our view on the 2010 income distribution of India matches up well with many macroeconomic and consumption-expenditure metrics.

Similarly, in order to project the shape of the income pyramid in 2020, we followed an extensive exercise using multiple approaches, including comparisons with the evolution of income pyramids in other countries and an analysis of India’s historical income evolution, both overall and across geographic segments. Our final estimate on 2020 income distribution is a composite of the outcomes of these methodologies.
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