

## An E-Interview with Dr. Kamaljit Anand - Managing Partner, KiE Square Asia

Rebecca B | The National UAE | 22 Jun 2018

**Q: I would like to ask about the outlook for India's consumer markets? What factors are driving this?**

**A:** The outlook for India's consumer market appears promising, even though it may not be as strong as they were estimated earlier in the decade. There are several factors that make the outlook good.

**a. Growth of Newer or emerging cities:** There are several cities in the country that are being connected well with infrastructure and enabled for higher business opportunities and better standard of living. As a result the impact on consumer markets is already positive.

**b. Proliferation of Spend points or opportunities (Digital medium is making the push exponential):** The spending points in the country are growing by more than 20% per annum, including the digital spend window which not only provides the opportunity to spend from remote but also speedens a transaction. The biggest impact of the same is being seen in smaller towns and the rural area.

**c. Technological up gradation and opening up of a lot of commercial sectors** like Infrastructure, Health, BFSI, Food & Agriculture. It is one of the biggest impetus to the overall economy and the citizens

**d. Nuclearization of the families:** There is a rapid decentralization of spend centres among the Indian families with the urban and semi urban areas leading the trend. Within a nuclear family also, the spending empowerment of women as well as other non-earning members has caught up resulting into distributed decision making and spends.

**e. Psychographic shift towards consumerism:** The societal change is also towards consumerism vis-a-vis Long term asset creation. The nature of assets have also shifted towards short term ROI generating, as a result of which the surplus generation is easier and it has a direct impact on consumption

**f. Higher Disposable Incomes** resulting from skill oriented markets with fair compensation and controlled inflation, generate a reasonable continuous savings or spend potential. It has a strong impact on short term planning and spend.

**g. Services Sector growth:** The services umbrella has grown significantly in the last one decade providing new spend opportunities to the consumers and the growth is likely to stay strong in this sector in the next decade as well.

**Q:** India is aiming to be the world's third largest consumer market by 2025. Is this achievable?

**A:** India's consumer market growth has been a linear growth story, which is unlikely to change drastically in the next 7-8 years' time frame. As the annual rate of growth in consumer spending has been sub 10% in all preceding years and despite strong Indian government efforts it has not created any non-linear spurt, it is safe to say that the country would be a 2.5 trillion dollar economy at the end of 2025, save for a USD-INR equation scenario, where INR becomes inexplicably strong. India is likely to be the fourth largest consumer market behind Japan in this time period and not third as widely speculated.

One of the key reasons behind arrested growth is that while the spend is increasing, it is not purely incremental in nature in new areas of consumption. The areas like electronics have been the most promising, but for the first time recently it has shown some signs of saturation which is an indication of substitution based future growth. Such a growth was also visible in the newly tapped market segments like Ayurveda based retail products and its ancillary industries which had grown at the cost of existing FMCG sector. In subsequent years this growth would be either snapped back by traditional FMCG or may stay marginal with imminent saturation already.

Healthcare, BFSI, E-commerce, Food industries, Automotive and Electronics would continue to provide the consumer market impetus over the next decade. It is about enabling the consumer markets with higher disposable incomes and better tax structures in the country.

**Q:** There are a lot of Indians who still don't have very high spending power at all, in the slums, in the rural areas - is this really likely to change in the next few years?

**A:** This situation is going to change only marginally as the global markets suffer from Income & wealth divide and it is going to be no different for India. The income divide is likely to continue and the majority consumption spending would come from the top half with a 70:30 likely pareto of consumption.

Higher Incomes, investments and low interest rates in the macroeconomy would drive strong price inflationary trends over the next decade. As a result the real incomes as well as per capita GDP (PPP) would grow only marginally in the years to come especially for lower income groups even when the nominal income and consumer spends would grow significantly for them.

A bad complication could be if the unemployment rate increases due to supply side inflation impacting the investments as well as interest rates. In a nutshell, the interest rate play and creation of income opportunities would be most important macroeconomic spectacle in the next decade if consumption growth in rural and slum economy is to be sustained.

**Q: What are the challenges that could hold the growth of India's consumption story back?**

**A:** Traditional sectors like Agriculture and Industry need to show strong growth vis-a-vis Services sector, for the growth story to be a Pan-India Story. Currently income disparity exists geographically, ethnographically and socio economically and if not handled well, it can become a boiling point of the next decade. Traditional industry profits and agricultural income have been largely flat in the last few years, which would keep the India story lop sided and therefore opportunities need to be created for all the high employment sectors.

The country's tax structure would have to be more liberal and Goods & services may need to be taxed more economically, for the spend boost to be high. A large number of goods and services have high elasticity to price & duties, the same need to be scientifically managed through analytics based decision making. In addition there needs to be a continuous control over the interest rates and the inflation for real growth to be visible.

**Q: Looking at the situation now, what about factors such as GST and inflation - have they had an impact on consumer spending? Has consumer spending growth slowed or declined at all in the past year or so?**

**A:** Short term factors like GST, lower liquidity due to demonetization had initially impacted the consumer spending, but there is an apparent recovery underway. As GST is a systemic change, it would cut down the business turnaround time in long term and hasten growth. A controlled amount of inflation is good for the economy and it has largely stayed in a manageable zone even with one of the lowest interest rates the country ever witnessed. However, the alarming aspect is that even with such low interest rates, high liquidity and strong thrust on concepts like Made in India, the industry growth and entrepreneurial boost have been minuscule to generate that extra cushion of National income. It takes away the potential growth points from the Indian Consumer story which has slowed down marginally in the last one year.

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