A supply-side dilemma

India's household consumption, considered the jewel in the crown of the country's economy, is monitored obsessively by businesses, the media, and policymakers. Business and media, in particular, often act like anxious parents of a delicate child, panicking at every minor sneeze or hiccup, calling for government stimulus to boost consumption at the slightest signs of flagging growth in household spending. It almost feels like the government of India is India Inc's designated marketing director, charged with the task of growing the macro variable of "consumer spending".

The truth is that consumer demand in India is not fragile anymore. It is substantial and robust, and has demonstrated the powerful arithmetic of consistent compounding growth. Yes, it is vulnerable because of Consumer India's occupation profile, but it is now large enough to not collapse. Even when there is a slowdown in growth rate, it has enough momentum to move forward because of its large mass (momentum in physics is mass times velocity). All of Consumer India is desperate to consume everything from quality-of-life improvers to productivity tools to affordable indulgences. Poor consumer sentiment has never significantly impaired consumption. Even borrowing to consume has been morally purified. The only impediment is limited income, which is improving by the year.

It is now the supply side that ails and lags. It needs to find/rediscover its animal spirits to serve existing demand and stoke demand growth. The explosion of consumption down the income pyramid when the value proposition is right is demonstrated by UPI, Amazon, smart phones at the lower end, and digital entertainment, among others. Consumer India is underserved not only at the bottom end of the income spectrum but also in the middle and at the top end. It can easily absorb more D Mart-type value retail chains, more Bajaj Finance-type consumption financers, many more truly full-service and full-spectrum consumer durable retail chains, more "no-frills" airlines, many more business class seats at prices not distorted by demand — supply mismatches, more truly affordable housing, more organic food, more differentiated brands of personal wear and care across price points, more brands that emulate high-priced brands at a lower price-performance point, more toy brands at all price points, and a multitude of services of all kinds.

RAMA BIJAPURKAR

Elitist 'big' supply

Big Indian companies, typically listed or invested in by private equity with a view to list, and MNCs restrict themselves to serving the top of the income pyramid, (richest 20 per cent at most) with only a handful of notable exceptions. Their belief is that the remaining Indian consumer demand is not worthy yet of being acknowledged as "real, grown up" demand. This explains the limited number of consumer-facing companies listed among the top 200 companies, and only three of them having a turnover above $6 billion.

MNCs are fettered by their global business rules. But large Indian suppliers have restricted themselves by waiting for the majority of Consumer India to cross a certain arbitrary threshold of income in order to qualify as real customers. This amounts to saying that it is the consumer who should grow her income to be able to afford the supplier's high costs, rather than the supplier figuring out business models that deliver to her price-performance criteria while remaining profitable.

India Inc is yet to build the confidence to invest significantly in the fifth-largest economy in the world, where over half the gross domestic product comes from household consumption. If choosing not to serve mass markets is the strategic choice large suppliers make, then their influence on policymaking should diminish accordingly.

Vibrant 'small' supply

The remaining 80 per cent of Consumer India is mostly served by domestic small suppliers and expedient imports pushed through wholesale trade. In the past, small suppliers equalled shoddy quality, poor features, and cheaper prices. Today, this supply segment has dramatically improved. As an example, there are 10 times more local and regional small fast-moving consumer goods brands than large supply brands, offering better customer-perceived value. The trouble with small supply is that it has little resilience to weather environmental turbulence, and little surplus to invest in scaling up and improving its offerings and operations to better serve mass-market Consumer India. They need enabling conditions to help more capable small suppliers perform better and grow larger, and not protection through tariffs and subsidies.

The promise of e-commerce marketplaces

A very promising new kid on the supply block is the e-commerce marketplace emerging in every category. They aggregate small suppliers and give them opportunities and benefits well beyond what their size can afford, such as wider market access and other services that they would not otherwise be able to access. Policies that support more such marketplaces to bloom while curbing exploitative practices would be a win-win for supplier, consumer, and the country.

The writer is a business advisor in the area of customer-based business strategy, a thought leader, and a researcher on India's consumer economy