

Don't confuse sales data with consumer trends

It is the quarterly earnings season, and with it come narratives from equity analysts, business media and chief executive officers on the health and status of consumer demand. It would be both heartening and enlightening if these narratives came from understanding what is happening to household employment, income, sentiment and spending choices instead of conjecture based on sales performance of large listed companies in analysts' favourite sectors (fast-moving consumer goods, or FMCG, for some, cars or smartphones for others).

Evaluating corporate results through the lens of factors affecting consumer demand makes more sense than the reverse, and does not add to the existing confusion of different data sets pointing in different directions. Conceptually, too, strategic choices made by companies of where they will play, competitive activity, and internal execution issues hugely affect the quantum and profile of their sales, which cannot be seen as a pure reflection of the consumer demand environment.

In the past few quarters, "premiumisation" was identified as a consumer demand trend. This quarter, rural demand recovery and the urban market pain has been added as a new trend.

'Premiumisation' deconstructed

"Premiumisation" happens in many ways and tells many different stories about consumer demand. Sometimes, it results from companies making strategic choices to focus effort on higher-income consumers who buy higher performance at higher prices, driven by the underlying household trend of the rich getting richer for well-known reasons. When company efforts don't work as expected, it does not mean that rich consumers are under pressure or that their share of incremental national income is declining. Maybe the premiumisation strategy is not good enough, given the increasing attractiveness of other categories.



RAMA BIJAPURKAR

Often, there is clear evidence of higher price-performance (premium) segments in a category growing faster than the rest. It doesn't automatically mean that more consumers' incomes are resurgent. It could either mean rich people are buying more than others (read K-shaped income skew) or it could mean that the category is indeed "premiumising" from the consumer's end. The fruits of this may not show up in the sales of the premium category brand leader. A recent news report cites "3-4 per cent drop in demand for new devices (smartphones) in the early days of the festive season"; however, a certain growing segment of consumers is opting to upgrade their current phone to a higher price-performance option via the refurbished, pre-owned phones route. This is a stable consumer trend because consumer understanding confirms that they are looking for "better devices than their current ones for remote learning, work and entertainment" as well as to improve time-use efficiency for more earning or family time.

Similarly, more supply of guaranteed quality pre-owned cars could show up as muted growth for new, higher-category cars.

Rural recovery narrative

This quarter's narrative is a sharp turnaround from the narratives of the last few quarters. Yes, retail audit data shows that FMCG sales growth in rural areas has outpaced urban growth. However, this may not merit the automatic conclusion that all is well with rural demand, perhaps on the back of monsoons, infrastructure, and government spending. Prominent FMCG companies have been seeking volume growth by expanding direct distribution (not via wholesalers) to smaller villages. Earlier, this was not profitable, but today, because of population density being low, roads and logistics services being scarce, and digitalised processes to reduce costs, it

is making sense. Rural incomes may not have grown as much, but rural sales may grow from occasional users and by taking some share from regional and small players (not all tracked in retail audits).

Is there household data evidence that rural incomes have recovered? A greater number of people employed in agriculture without agricultural growth accelerating suggests income distress, according to one set of data. Another set of data says that mixed farming in agriculture is increasing incomes. The Centre for Monitoring Indian Economy data suggests income stress as the construction sector, a big provider of rural jobs, slows employment. The Nabard Rural Economic Conditions and Sentiment Survey of September 2024 shows, startlingly, that in the last one year, 80 per cent of households reported an increase in consumption while only 37.6 per cent reported an increase in income. The report suggests that this can be explained by increased borrowings and stagnant or decreased financial savings observed. The jury seems to be out on the robustness of this narrative.

Urban demand examined

There are strong consumer-based reasons to explain the poor urban sales in mid-market categories. The Reserve Bank of India consumer confidence survey, which is (surprisingly) a large urban towns survey, shows deteriorating consumer perceptions compared to last year on almost all counts. Households in the third- and fourth-highest income quintiles have very little surplus income, and in high inflation times this is wiped out. They buy less, sadly for some companies, or "down trade", happily for others, whose sales equity analysts may not be tracking.

The Indian consumer market is getting more complex. Old paradigms and dominant logic need to be replaced with a deeper, more nuanced understanding of cause and effect.

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