

Unlocking India's mass market potential

External headwinds inevitably turn our gaze to domestic consumption to see if it can come to the rescue of gross domestic product or GDP growth. All eyes and hopes rest on traditional policy levers of demand stimulation. The earlier cut in income-tax rates that helped a small but relatively high-spending segment of Consumer India and the forthcoming cut in goods and services tax rates, slated to reduce prices of a range of consumption items, will give a much-needed one-time step-up in consumer spending.

However, more can and must be done by way of creative and strategic policy measures to develop India's mass markets if we want to fully unlock its consumption potential, preparing for a future where domestic consumption may be an even more important driver of economic growth. Policy measures aimed at large companies and richer consumer segments don't percolate to the mass market — large Indian companies, barring a literal handful do not really engage with these consumers, put off by the small-ticket-size, high-volume-low-margin character of their consumption, and their easily dented incomes and confidence, leaving them to be the preserve of small

local companies and wagon loads of imports from China. There is little expectation that large businesses will suddenly change their minds and invest in mega manufacturing capacities, taking a leaf from China, to serve the mass market. As the rich have grown richer, the economic logic of investing steadily in a long-term, money-spinning segment with a painful path to reach it is even less attractive to large companies. They would rather wait for the "ugly duckling" to transform into a richer swan worthy of being served, which will take a long time.

The richest 20 per cent of Indian households have historically been very high earners, spenders, savers (and investors), have shock-resilient incomes, and display "premiumising" consumption behaviour (meaning seeking better performance points and willing to pay more for them), and will continue to be

so because of their education-occupation demographics. They will consume without the help of policy nudges, though they are an instant source of quick push-ups in spending. Reduce iPhone or laptop prices, and they will replace faster or buy more gadgets. Reduce stamp duty, and they buy higher-priced homes. They are the darling customers of large companies, who will nurture them with a wider variety of supply.

The next richest 20 per cent of households are a diluted version of the top 20 per cent, with poorer socioeconomic demographics but on the radar of large consumer-facing companies as the next logical source of growth for their existing strategies. Even if their consumption growth is not as stable, their consumption holds even in economically hard times. At worst, they display downtrading behaviour (meaning will settle for less performance at lower prices). This group quickly responds to nudges of more or cheaper credit and price reduction of aspirational durables, cars and homes — provided the environment has not dented their confidence in future incomes, which is also more fragile than that of the richest 20 per cent.

However, it is the consumption of the middle 40 per cent of India's households, the relatively homogeneous mass market spanning urban and rural India that we now need to turn our policy attention to. The long-term perspective should be to transform it into a higher-productivity, higher-efficiency, demand and supply (consumers and producers) ecosystem capable of extracting its maximum potential, best measured in terms of net present value of the future growth it will deliver.

This consumer base is modest income, mostly self-employed agriculturists, informally employed, or "own account" workers with varying degrees of skills. It knows what is available, is a keen consumer and a sophisticated value processor, and while it is a sure bet for growth on a long-term trend basis, it demonstrates

a lot of volatility in response to short-term setbacks.

Fortunately for us, the new economy, with its digital business models, has shown the formula to drive this transformation — one that policy should now encourage and accelerate. Built around the levers of aggregation of small consumers and small suppliers and virtual marketplaces, which offer value-added services that none can individually afford, its genius is that it transforms around existing structures. It can create more jobs by platform-enabled scaling of small suppliers and offer benefits of economies of scale to small customers and suppliers through aggregation. It can manage the painful small-value, high-heterogeneity requirement at lower costs and with higher efficiency than large businesses by aggregating diverse small suppliers. Think aggregating cloud kitchens, small hotels, or a variety of home services.

It can remove small-ticket-size and remote-location penalties that have dampened mass-market consumption. It can yoke existing small retailers, even in remote areas, into a large, lean distribution machine, or go-to-market pipeline through which more products and services can be pushed with marginal cost increases. It can enable small consumers, through sharing, to access large-ticket items they would like but cannot afford — like tractors, cars and wedding finery. Service marketplaces that aggregate own-account workers offer some of the benefits of "formalisation" — improved productivity, enhanced skill levels, more pricing power, lower cost inputs and easier access to credit via the platform and increased financial transparency. All this is not just conceptual. Several startups have already demonstrated this on the ground. The virtual marketplaces movement that aggregates the small is already underway.

For all these reasons, it makes sense for policy to be designed to stimulate and nurture this new ecosystem of "aggregation of the small", and consider it as worthy — if not more — than the production-linked incentive-type schemes.

.....
The author is a business advisor in the area of customer-based business strategy



RAMA BIJAPURKAR