

Listen to Consumer India's logic

As prices increase all around, thoughtful, shrewd Consumer India is bound to adjust its consumption patterns. For companies, doing the math on what overall macro-consumption growth will be is timepass. Far more useful in adding value to forward planning and performance risk mitigation strategies is an understanding of how consumers are thinking about their own consumption strategies, and this is not as simple and formulaic as supply-side logic assumes.

Consumers are adept at balancing budgets in unique ways, using sophisticated and personalised value-processing algorithms residing in their heads. Essential needs, such as a mother-in-law's medicines or a child's shoes, must be bought regardless of economic shifts, although with different value logics. Then there are necessities that can be deferred, though they may be very necessary, like changing your erratic washing machine or upgrading your fully functional phone for better productivity. Then there are affordable "feel-good" indulgences that consumers hold on to, known as the "lipstick effect" — the idea that during economic crises, consumers

are more willing to buy less costly luxury goods (like premium lipstick) even as they cut back on big-ticket purchases. We have been seeing the lipstick effect for a while now, as lower middle-income young India, unable to afford a suitable "gaadi" or "ghar", buy an iPhone on EMI, expensive shoes, or lots more clothes.

We have also been seeing strong cross-category competition, as growth in desires and aspirations (two different things) has outstripped income growth. Consumers choose between unlikely candidates — a family trip to Thailand versus a lavish birthday party versus a bigger refrigerator or more visits to beauty parlours for more higher-ticket treatments. This is the consumer balancing act that companies need to take off their blinkers and observe, for gain or pain. There is no

simple, neat pan-Indian theory of hierarchies that fits this balancing act.

A very old study showed that when times were tough, South Indian consumers cut back on *badam* biscuits and branded pickles, while North Indians cut back on expensive baby powder and painted their ceilings with cheaper paints than their walls.

Consumers use portfolios of price-performance points (what companies call mass/premium/mass-tige/entry-level) for each category to optimise their budgets. A classic example of this is significant dual ownership of a two-wheeler and a car by households,

thoughtfully deployed. From time immemorial, focus groups have told us "brand X for husband's office shirts but brand Y for children's uniforms", or "vanaspati for deep frying but refined oil for vegetable cooking".

These choices are now obsolete with washing machines and heart-health awareness, but the DNA of "mix and match" is alive in Consumer India. Under-dosing but not down-trading is another favourite method of budget balancing — continue using expensive

liquid detergent but experiment with using less quantity per wash. The dog still gets imported treats, but more stringently rationed. Postponement of big-ticket purchases in bad times, we know, happens across all income levels — the rich because of sentiment, the middle-income group because money is short, though the goal still remains a priority.

The assumption that "premiumisation" happens in good times and "down-trading" in bad, all within the same category is too simplistic. There is the value logic that customers use in deciding when to keep stretching for more and when to settle for a lot less. Years ago, when two-wheeler companies were trying to sell mopeds to people as the cheaper sensible alternative, young people would tell their parents that they would rather

go by bus than buy a moped, and commuters chose second-hand bikes over mopeds. And today the pattern continues, based on consumers' value logic, which companies don't see as worth spending on to understand. Value logic is the algorithm that consumers use to decide if the benefit versus the cost of something is "*paisa vasool*". Repaying bank loans may not be that, but paying private school fees is, since the child may be publicly censured. Pool driver services at surge premiums may still be *paisa vasool*, even at higher fuel prices given Uber costs and other considerations, while the same value logic may not hold for instamaid services.

Value logic applied to your brand is not necessarily the same as that applied to your competitors. Maybe your past advertising is coming back to haunt you, as you explained that your mutual fund is a cool way to get a fancy apartment, unlike your competitor who had a more sober, goal-based savings and financial planning pitch. As for Tier-I and III town consumption, it is not automatic that in tough times metro demand will hold, while smaller-town demand will not, especially if you are talking about products and services aimed at higher-income consumers.

The message here is not "it's complicated" but "don't be simplistic"; and do not have equity research guiding marketers on how consumer behaviour works, based on their narrow lenses and skewed prisms.

The message for companies also is that this is a time of great opportunity, depending on who you are and what you do. Forget groupthink, grandiose marketing theories being floated by those least equipped to do so. Forget macro numbers. Instead, focus on getting a seat at the consumer's table. See what opportunities there are in the whole balancing act the consumer is doing, and decide to choose consumer value-adding strategies and not stock market-comforting strategies.

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