

India's shoppers want only best,

Spending power rises 'by the day'

By Mark Sappenfield
USA TODAY

NEW DELHI — Raman Kathuria vows his New Delhi Mercedes-Benz dealership will never underestimate the Indian consumer again.

When Mercedes first came to India 11 years ago, it sent only its oldest and most pared-down models, thinking that Indian buyers and their wallets weren't ready for true luxury.

As the first luxury car to be offered in an eager India, Mercedes sold 1,800 cars in 1996. But as consumers learned that these were outdated models, sales fell to 736 in 1999. Now, manager Kathuria imports Mercedes' top models from Germany, priced at \$95,000 each, and custom-designed for Indian consumers with some \$40,000 in features — from massaging leather seats to infrared dashboard displays for night driving. Double the price for import taxes, and each car tops \$250,000.

The new capitalist India is all about keeping up with the Kumars. After decades of socialism, India's consumer revolution is still in its infancy. But at all levels, Indian shoppers are using new wealth to buy something better — whether it be a Mercedes or a cellphone.

"From the guy at the bottom moving from buying soap to buying shampoo to the guy at the top trying to act like his global counterpart, this is the first time that Indians have been able to afford discretionary spending," says Subbu Narayanswamy, a Mumbai-based analyst for the consulting firm McKinsey & Co.

Growing consumer market

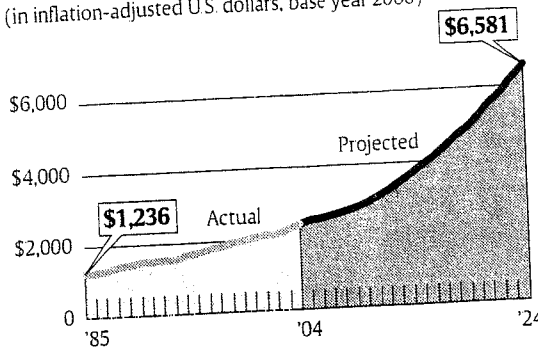
India is the world's 12th-largest consumer market. By 2025, it is projected to be the fifth-largest, ahead of Germany, according to a recent McKinsey survey. As with China, however, the strength of the Indian market will be in its size, not its individual spending power.

In 2004, China's per capita consumer spending was about \$500, according to Goldman Sachs. Today, India's is less than \$350, but it is forecast to more than triple to \$1,065 in 2025, McKinsey reports.

Across all economic classes,

Household income in India rises

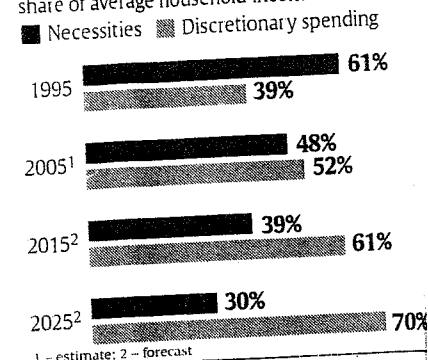
India's household income is going higher. Actual and projected average real household disposable income: (in inflation-adjusted U.S. dollars, base year 2000)



Source: McKinsey Global Institute

More discretionary funds

India's spending will shift from basic necessities to discretionary items. Percentage share of average household income:



By Manpreet Romana AFP/Getty Images

Mom! Look at this! An Indian child admires a toy in a department store in New Delhi. Across all economic classes, spending is up 40% to 50%.

spending is up 40% to 50%, Narayanswamy says. And the global class of consumers, who buy top-branded and luxury items is expected to grow tenfold by 2025 to 23 million.

India's middle class numbers only about 50 million, if measured by those who have annual incomes of \$4,380 to \$58,820 — the equivalent of \$23,530 and \$117,650 in American purchasing power. By 2025, that figure could hit 583 million, McKinsey predicts.

Moreover, household disposable income will grow 5.3% a year to \$7,000 in the next 20 years. Though slower than China's forecasted rate of growth, that contrasts starkly with income growth in developed nations such as the USA (1.5%) and Japan (0.3%).

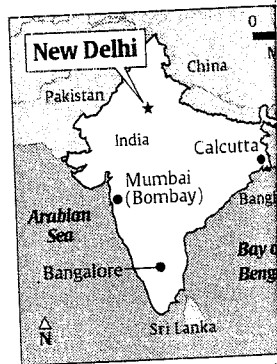
Generations of pent-up demand

Indians at the leading edge of the curve are already beginning to spend that money. After lean years in which imports were rare and consumer goods were generally scarce and shoddy, they are releasing generations of pent-up demand.

As recently as the 1980s, Indians could only buy one of two kinds of cars, both Spartan: an Italian Fiat or an Indian Ambassador. They often had to wait years for delivery.

Today, the head of BMW Asia says the defining characteristic of Indian consumers is their desire to buy every available feature.

"What the Indian consumer wants is the latest technology, and in the premium car segment, they're looking for a fully loaded



car," Linus Schmeckel says don't like to be seen as class consumers."

In a society still sharply along the lines of caste, class, religion, consumerism can maintain lines that have blurred in recent years by economic mobility and government policies.

"India tends to be very conscious," says Raman Kathuria, a consumer market analyst in Mumbai for the consulting firm Kearney. "A subtle hierarchy established in one's mind, people use these symbols to place themselves in different levels of living."

At the highest end of the trend is still small. Kathuria estimates that 150 fully loaded imported BMW's new India plant will produce about 1,700 units annually for the domestic market. But the trend is upward.

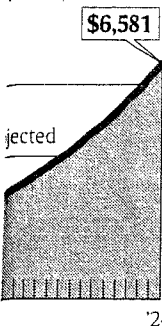
"Spending power is going up the day," says Kathuria, "that sales are growing 12% a year. Consumers are becoming very demanding — for the best."

Water, water won't be everywhere, so invest

want only best, lots of it

ses

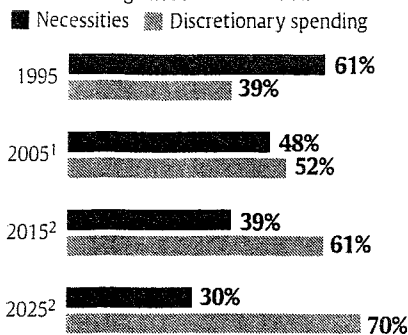
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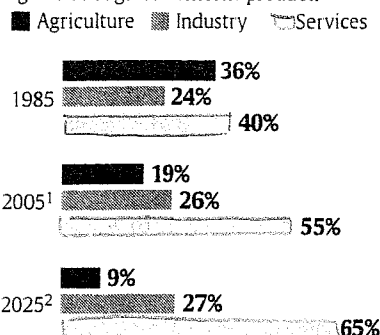
India's spending will shift from basic necessities to discretionary items. Percentage share of average household income:



1 - estimate; 2 - forecast

Banking on service

India's service industry will drive the country's gross domestic product. Percentage share of gross domestic product:



By Adrienne Lewis USA TODAY

slumped as shoppers curbed purchases in the face of still-high gasoline prices and a sluggish housing market.

A majority of Wal-Mart shoppers "feel that there is too much month at the end of their paychecks all or most of the time," says Pam Goodfellow, a senior analyst with the consumer insights firm BIGresearch.

"Overall, Wal-Mart shoppers are more affected by pump prices than consumers in general."

BIGresearch's survey data show that most Wal-Mart shoppers are driving less and shopping closer to home. Many are focusing on essentials: 40% have cut back on dining out, 33% have reduced their spending on clothing, and 27% are delaying major purchases.

Regular Wal-Mart shoppers often say that while the discount may have the lowest prices, they are shopping there less often because there are usually closer choices.

Even when Wal-Mart has the lowest prices, regulars are more often opting for other retailers closer to their homes.

"I, at least, subconsciously, try and limit or at least consolidate trips to Wal-Mart," says shopper Lance Lichtenwalter of Lake Park, Ga.

For March, the latest data available, Wal-Mart says the top three concerns among discount store consumers overall and Wal-Mart shoppers in particular were money, the cost of living and gas prices.

Wal-Mart CEO Lee Scott said in a May earnings call that the pressure from energy prices had made the retailer more committed than ever to offering the lowest prices.

"No longer can I just jump in the car and drive to Wal-Mart and pick up a few items, as needed," says Gerry Ellis, who lives in New York City.

"The high price of gas has forced me to think out my needs in advance and plan my visits to Wal-Mart to get the most out of a single trip," Ellis said.

But Dalton Boynton of Cohoes, N.Y., finds Wal-Mart more attractive than ever because she can do so many different kinds of shopping — clothes, baby products, photo developing and, soon, groceries — in one stop.

"You have to stop and think about where you are shopping, what value you're going to get and how convenient it is," she says.

Frank Badillo, senior economist at consulting firm Retail Forward, says continued growth in jobs and income should help offset the impact of gas prices, the weak housing market and other economic woes "at least for upper-income households."



By Manpreet Romana. AFP/Getty Images

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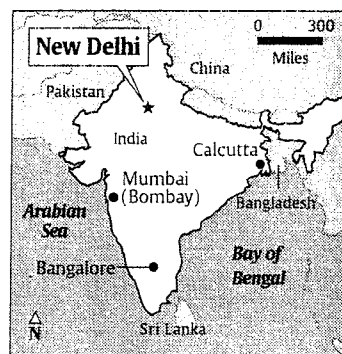
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In a society still sharply divided along the lines of caste, class and religion, consumerism can serve to maintain lines that have been blurred in recent years by economic mobility and government policies.

"India tends to be very status conscious," says Raman Mangalokar, a consumer market analyst in Mumbai for the consultancy A.T. Kearney. "A subtle hierarchy gets established in one's mind, and people use these symbols to put themselves in different levels of standing."

At the highest end of the market, the trend is still small. Mercedes' Kathuria estimates that he sells 150 fully loaded imports a year; BMW's new India plant will make about 1,700 units annually for the domestic market. But the trend is upward.

"Spending power is going up by the day," says Kathuria, estimating that sales are growing by 10% to 12% a year. "Consumers are becoming very demanding — they want the best."

The same is true across all economic levels. Praman Kapur, who works in real estate and construction, cannot yet afford a fully loaded Mercedes, but he has spent more than \$2,000 in his quest to get his modest Skoda sedan to do zero to 60 miles per hour in six seconds.

He had a used Mercedes for a while, which included a button that would lower the car 5 inches to make it more aerodynamic. "I had never seen this stuff in India," he says.

Kapur says he's interested in a midclass BMW roadster that he could customize. "I've been closely looking at that," he says.

Hugo Boss, plasma television

As India's middle class grows and becomes more acquainted with the outside world, it is increasingly seeking to emulate the world's buying habits. That has meant the spread of Hugo Boss stores and a run on plasma TVs.

For that reason, Varun Mirchandani has shunted the old-fashioned color televisions into the far corner of his store. Two years ago, 90% of his sales at the Rhythm Corner electronics store were traditional color TVs. Now, 65% are plasma.

"If they're buying something at (\$1,500), they might stretch it to (\$2,000)," he says.

Even Indians on working-class wages are not excluded. Asha Maya Tamangi spent \$170 — or nearly the equivalent of two month's wages as a housekeeper — to buy her new mobile phone, which includes a radio and a video camera.

Sappenfield is India correspondent for USA TODAY and *The Christian Science Monitor*

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