

## **CONSUMER DURABLE INDUSTRY IN INDIA**

## 1. OVERVIEW OF INDIA'S CONSUMER DURABLES MARKET

### India's Consumer Market

India's consumer market is riding the crest of the country's economic boom. Driven by a young population with access to disposable incomes and easy finance options, the consumer market has been throwing up staggering figures.

India officially classifies its population in five groups, based on annual household income (based on year 1995-96 indices). These groups are: Lower Income; three subgroups of Middle Income; and Higher Income. However, the rupee income classifications by themselves do not present a realistic picture of market potential for a foreign business enterprise, because of significant differences in purchase power parities of various currencies. In fact, the Indian rupee has a very high purchase power parity compared to its international exchange value. For instance, while the exchange rate of one US dollar is 48.50<sup>i</sup> Rupees, the domestic purchasing power of a US dollar in the US is closer to the purchasing power of Rs 6 in India, for equivalent needs and services. As a result, India ranks fifth in the world, on purchase power parity terms, despite being having low per capita national income (US\$ 340 per capita).

### Consumer Classes

Even discounting the purchase power parity factor, income classifications do not serve as an effective indicator of ownership and consumption trends in the economy. Accordingly, the National Council for Applied Economic Research (NCAER), India's premier economic research institution, has released an alternative classification system based on consumption indicators, which is more relevant for ascertaining consumption patterns of various classes of goods.

There are five classes of consumer households, ranging from the destitute to the highly affluent, which differ considerably in their consumption behavior and ownership patterns across various categories of goods. These classes exist in urban as well as rural households both, and consumption trends may differ significantly between similar income households in urban and rural areas.

### Structure of the Indian Consumer Market

(in millions of households)

<i>Consumer Classes (Annual income Rs)</i>	<i>1996</i>	<i>2001</i>	<i>2007</i>	<i>Change</i>
The rich (Rs.215, 000 and more) <sup>ii</sup>	1.2	2	6.2	416%
The Consuming Class (Rs. 45-215,000)	32.5	54.6	90.9	179%
The Climbers (Rs. 22-45, 000)	54.1	71.6	74.1	37%
The Aspirants (Rs.16-22, 000)	44	28.1	15.3	-65%
The Destitute (below Rs. 16,000)	33.2	3.4	12.8	-61%
Total	164.8	180.7	199.2	21%

*Source:* National Council for Applied Economic Research (NCAER)

The target market segments considered for aspiration and lifestyle goods are the 35 million homes representing the consuming classes and the rich, or some 150 million people. It was the roughly 80 million households that comprise the upper aspiring to lower consuming that so excited the global market when they decided to enter the Indian market in the early 1990's.

It was not until 1992, when the Indian market first began to open up post liberalization, that the MNCs started taking a closer look at the purchasing power of the country's middle class. Inevitably, the first thing they saw was the massive volume of this potential market, rather than its cultural idiosyncrasies.

























