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Recalibrating Business Strategy

Only the most optimistic or then those who can claim some extraordinary prescience would bet on the Indian economy's early return to a relatively high (~8% CAGR) growth trajectory and a significant dampening of inflation anytime in the near future. Most others may do well to recalibrate their business and marketing strategies to an external environment which may see GDP growth hovering in the 5-6% and consumer price inflation in the 8-10% range.

The last twenty years of higher than usual growth and more moderate inflation created several new opportunities for manufacturers and marketers of a very wide range of consumer goods and services. As per an early consumer study by Technopak, 80% of discretionary spending of the middle and upper income consumers in 1991 was accounted for by just 7 categories (food & grocery, clothing, footwear, consumer durables and appliances, furniture and home linen, movies and entertainment, and eating out). 20 years later, by 2011, there were 20 categories that accounted for the same. The new additions included coaching, grooming, travel, gifting, kitchen and other home accessories, fitness and other club memberships, and computing & communication devices (and talk time, and internet). The steady economic growth also gave rise to creation of many more layers of customer segments beyond just the rich, the middle class, and the poor leading to an explosion of possibilities to create new products and new brands for these new micro income-based segments such as ultra rich, rich, affluent, upper middle income etc. The steady growth also created tens of millions of new consuming-class households, spread beyond the top 10-12 cities. Finally, renewed attention on India from myriad global businesses, and entry of many of them led to many dramatic changes in consumer aspirations and lifestyles, and gave an unprecedented optimism and confidence about their future and about the arrival of India's "century" to hundreds of millions leading to heightened consumerism.

A lot of this optimism and confidence about India's future is now dented. The twin impact of slower growth and high inflation will lead to a slowdown in creation of new consuming households, and to a hesitant but unavoidable return to more cautious spending behaviour. The first set of businesses to be impacted is likely to be those which were the biggest beneficiaries of changes in consumer lifestyles. Automobiles, consumer durables and appliances, and jewellery have already seen this impact in the last few months. In the coming months, consumer spending slowdown is likely to be seen in higher priced clothing and accessories, eating out at non fast-food / quick serve restaurants (i.e. non budget-priced eateries), travel for leisure (both international and domestic), gifting (shift to lower priced options), and even minor categories such as spending on flowers. It must be kept in mind that while such a slowdown may not be immediately visible (and may even seen as a contradiction) in NCR, Mumbai, Bangalore and a few other metros, and many large state capitals. These few pockets of steady (or even rising) affluence and therefore rising consumer spending may give an illusion that there is no significant impact yet on India's consumption story. However, it would be better to err on the side of prudence.

One of the first things that brand owners and marketers should consider doing is to create new "value" oriented offerings, primary working on price-performance attributes keeping lifestyle and emotion related attributes in the background. While this may be relevant across almost all private consumption categories, this may be even more needed in categories such as personal and home care, apparel and footwear, and furniture and home furnishings.

The next thing they could consider doing is to focus on further improvements in operating efficiency. In recent years, with a steady increase in consumer segmentation and with a steady growth in consumption to non-metro towns, many businesses have launched a plethora of brands and a much larger assortment of options to cater to various micro consumer and geographic segments. There is a case today for reducing the number of such brands and sub-brands, and the width of assortment (or stock keeping units, from a retailer's perspective). Such a reduction is very likely to improve production efficiency, better inventory management including fill rates at the retail channel, reduced retail space requirement at the front end, and a more efficient allocation of marketing budgets.

Finally, it is very important for the business leadership to retain positivity while tackling this change in the external economic environment and the shift in consumers' confidence. There is enough that can be learnt from the way Indian companies could successfully manage businesses in much worse circumstances that were beset with licensing constraints, very high and very convoluted taxation structures, worse logistical challenges, and far more limited options to reach out to the end consumer. Yes, competition was also lower in those early decades, but then so too was the size of the market. India offers many more opportunities today, and will offer even more tomorrow. Only the business strategy and tactics need some recalibration.

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