This article originally appeared in the January 2009 issue of
Outlook
The journal of high-performance business

accenture
High performance. Delivered.

India

A passage to India

By Armen Ovanessoff and Anish Gupta

When it comes to cracking the conundrum of the Indian consumer, the key to success is adaptability. The winners will be those who enter into the fabric of society and work with Indians as partners.

The numbers say it all: India's consumers spent close to $450 billion in 2007, twice as much as in 2000. And powered by a predicted doubling in household income, that figure is expected to reach $802 billion in 2012, according to a late-November report from the Economist Intelligence Unit.

To be sure, India's growth trajectory is not immune to either the current global economic slowdown or November's devastating terrorist attacks. In fact, growth in the third quarter of 2008 was already the lowest in four years: 7.6 percent. But 7.6 percent growth still shows a robust engine at work. Small wonder that one-quarter of the world's leading retailers are either operating in India already or plan to do so soon.

The participants in India's extraordinary spending spree represent just about every segment of the subcontinent's vast and varied population. But it is urban youth—affluent, brand-conscious and Internet-savvy—who are transforming the consumer landscape. Fully half of all Indians have yet to celebrate their 25th birthdays. And it is this group, which wields huge influence on its parents' purchasing decisions, that is driving unprecedented demand, particularly in the country's cities, for a wide range of Western-style consumer products and services, from gaming consoles to fast food.

The boom in consumer goods is also having a trickle-down effect on other industries, fueling dynamic growth in entertainment, real estate and travel. Moreover, just as in Western markets, customer service standards for consumer goods are becoming a benchmark across a raft of other industries, from health-care to banking.

Indian realities can mean that capital is used more efficiently.

India, however, is a place of paradox. Young urban Indians might crave the cachet associated with international brands, but they're usually reluctant to pay a premium for them. Concerned above all with finding value, they often opt for local look-alike products instead. And the almost 110 million rural families that collectively account for about one-third of total consumption are still too poor to buy much more than very basic, low-margin products.

In fact, although the national appetite for Western luxury goods transcends both geography and social class—farmers, too, hanker for high-end products of all kinds—Indians of almost all income levels remain acutely price-sensitive. What's more, they expect products and services to reflect their personal preferences. And most follow the recommendations of family and friends.

According to the Indian Council for Research on International Economic Relations, modern, organized retail accounts for just 4 percent of the total retail market in India (compared with 20 percent in China and 36 percent in Brazil). Despite the proliferation of modern supermarkets in the teeming megacities of India's south, a majority of Indian grocery stores are still the mom-and-pop variety, where service is up close and very personal. When it comes to shopping malls, India still lags well behind other major emerging economies.

Elusive advantage

In a multi-polar world, where product features and price advantages can be quickly replicated, a company's best source of sustainable competitive advantage—the essence of high performance—may be the quality of the customer experience it can deliver. But how can outsiders develop the customer intimacy that informs this experience and secures customer loyalty in a huge land of multiple markets, more than 18 different languages, 1,600 dialects and a patchwork of diverse climates, local regulations, customs and cultures that are held together—precariously—by a severely strained rail network and poorly maintained roads?

The answer, as more and more global companies are discovering, is to become an insider. At its most basic, this means recognizing Indian sensibilities and learning to respect and accommodate them.

McDonald's trademark Big Mac, for example, was anathema to India's Hindu majority, for whom the cow is sacred. The fast-food behemoth had to "Indianize" a large part of its menu—including McAloo Tikki Burger, a potato-based product—before Indians warmed to the brand. Colgate-Palmolive Company, similarly, learned to innovate to serve local needs. When the American company realized that Indian villagers were cleaning their teeth with charcoal, brick dust and similarly abrasive substances, Colgate replaced the ubiquitous toothpaste with "toothpowder."

But becoming a successful insider also means getting the price point right. Procter & Gamble, for example, markets washing powder and shampoo in single-use sachets that suit the limited budgets and the acute water shortages rural Indians face. And LG Electronics India, the local subsidiary of the South Korean consumer electronics company, has responded to the price sensitivities of middle-class Indians with tailor-made financing plans for its TVs (see sidebar, page 5).

Indian realities can also mean that capital is used more efficiently. The consumer goods conglomerate Unilever, for example, which has been operating in India for more than 75 years (now as Hindustan Unilever, or HUL), achieves better

(Continued on page 4)

Hindustan Unilever: The insider's insider

It might be an integral part of one of Western Europe's best-known consumer goods conglomerates. But as far as Indians are concerned, Hindustan Unilever, or HUL, is as Indian as, well, Lifebuoy soap.

Lifebuoy, indeed, is one of dozens of internationally familiar Unilever brands—Lux and Surf Excel laundry detergents, Closeup toothpaste, Sunsilk shampoo and Brooke Bond tea are some of the others—that most Indians consider their own. And the customer loyalty these products enjoy in India shows just how extraordinarily successful Unilever has been in becoming an Indian insider, a status critical to profitability in the subcontinent's maze of markets (see story).

Founded in 1933 as Lever Brothers India, HUL, which is still (just) majority-owned by its Anglo-Dutch parent, now accounts for 27 percent of Unilever's sales and 40 percent of its profits in the Asia Pacific region. When the Indian economy began to liberalize in earnest in 1991, HUL moved swiftly to expand its product portfolio.

In 1995, the Mumbai-headquartered company formed a joint venture with a Tata Group company, Lakme, to market cosmetics; bought Lakme out completely three years later. A joint venture with Kimberly-Clark, formed in 1994, still markets Huggies diapers and Kotex sanitary products. And by the late 1990s, HUL had also moved into food, finally acquiring the Indian government's remaining stake in Modern Foods in 2002.

HUL's growth—it is among India's largest fast-moving consumer goods companies and has become a key supplier to Unilever's global sourcing network—has always been characterized by a mass-market focus and a localization strategy that aligns scrupulously with Indian aspirations.

HUL, for example, was the first foreign subsidiary in India to offer the Indian public an equity stake. And its motto—"Add vitality to life"—aims to help Indians, and poorer Indians in particular, look and feel better. Over the years, HUL has built an exceptionally strong distribution system that brings its brands, via local offices and agents, into remote rural markets.

The company is especially active among rural women. Its Project Shakti, launched in 2000, creates micro-enterprise opportunities for thousands of women who also deliver health and hygiene education to more than 100,000 villages in 15 Indian states. The program already reaches more than 150 million people, and by the end of 2010 should reach its goal of touching more than 600 million customers. Meanwhile, a parallel rural health program, Lifebuoy Swasthya Chetana, focuses on bringing down the still shockingly high incidence of diarrhea among the children of the rural poor by teaching them to wash their hands with—you guessed it—Lifebuoy soap.

Middle-class Indians have long been accustomed to the personalized service that Westerners now aspire to.

(Continued from page 2)

return on capital employed in India than it does globally. HUL is now so well established in the country that Indians actually think of it as a domestic company (see sidebar, page 3).

Newcomers, of course, are at a disadvantage. But partnering with local companies can help bestow insider status. Continuing restrictions on foreign majority ownership of multi-brand retail stores, for instance, have spurred leading global retail chains to form joint ventures with local players. Wal-Mart Stores tied up with Bharti Enterprises, an Indian conglomerate, two years ago. And Tesco recently signed with India's Tata Group to develop a chain of cash-and-carry centers.

Such deals, to be sure, work in both parties' interests. Tata, for example, gets a look inside Tesco's famously efficient operating systems, while the UK company gains valuable insights about Indian consumers. As growing numbers of outsiders clamor for access to India, and as more and more Indian companies develop global clout, learning from each other—and applying these lessons to the Indian market—promises to become more common.

The United Breweries Group, India's biggest alcoholic beverage group, is a good case in point. Founded by a Scotsman in 1857 when India was a British colony, the group brought history full circle in 2007 when it bought Whyte & Mackay, one of Scotland's leading distillers and the fourth largest in the world. The acquisition, moreover, was designed, in Chairman Vijay Mallya's words, to be "India-facing": The intent is to make Whyte & Mackay's premium single malts the alcoholic beverage of choice for India's urban elite. (For a related article, see "The new face of global M&A," *Outlook*, January 2009.)

Creating demand, managing expectations

Winning companies don't just serve existing demand exceptionally well—they actually create future demand by identifying and incubating new consumer segments. In India, that means tackling major infrastructure challenges to penetrate the often difficult-to-access hinterland.

The country's rail network, a legacy of the British Raj, is extensive but antiquated and creaking under the weight of steadily increasing traffic. India's roads, too, are massively overburdened. So some local players have established their own logistics businesses to overcome infrastructure bottlenecks—and capitalized handsomely on their investments. Mahindra & Mahindra, for example, is now a well-established third-party logistics provider. And Reliance Logistics, which was set up to serve the more than $30 billion Reliance Group, established itself as its own business as well and now has 500 of its own customers.

Meanwhile, back in the cities, the expectations of India's consumers are steadily mounting. Thanks to a combination of low wages and traditional social structures, middle-class Indians have long been accustomed to the personalized service that Western consumers now aspire to. In India's traditional stores, shopkeepers know their customers by name, and home delivery of both groceries and meals is common. Even McDonald's had to offer to deliver meals directly to consumers by bike and scooter. Now that more and more Indian consumers are becoming as empowered to make choices as their Western counterparts, they want similarly customized standards across a range of different services.

The swelling number of Indian women who leave the home to work is having a huge impact on this process. Because they have less time to care for elderly relatives, a significant segment of

LG Electronics India: Value at the right price

No global brand, however successful elsewhere, can expect to triumph in India without understanding and adapting to local conditions (see story). And few global brands have been as good at adapting as LG Electronics India, the local subsidiary of South Korea-based LG Electronics, which now dominates the Indian market for refrigerators, air conditioners, washing machines and TVs. Indeed, the LG Electronics India story is a textbook case of how to succeed as an outsider in these perplexing markets.

When LG Electronics first came to India more than a decade ago, regulations still forbade foreign companies from starting independent ventures. So Lucky Goldstar, as it was then known, made its presence felt through joint ventures with local companies. It was not until 1997, when LG Electronics was finally granted permission to operate as LG Electronics India and established its own washing machine and refrigerator factory in the Indian state of Uttar Pradesh, that the company really started to build market share. It did so through an astute combination of localized marketing and value-for-money pricing—the key to successful marketing in India.

LG Electronics was careful to promote itself from the first as a nationwide brand, building a comprehensive distribution network that reached the remotest Indian villages. The company sold 100,000 of its Sampoorna low-cost, small-screen color TV sets, with on-screen displays in Hindi, Tamil and Bengali, within a year of the product's 1998 launch. Rural consumers now buy 60 percent of its color televisions. A close tie-in with cricket—LG Electronics uses Indian stars of the sport in its advertising—also helped win the hearts and minds of cricket-obsessed Indians. And a direct, personalized sales approach is helping to retain their loyalty.

In one local promotion, for example, LG Electronics offered selected households a free, 15-day trial of a 50-inch flat-screen TV during the cricket season. Families that expressed interest in buying one of the sets were then presented with personalized financing plans. To boost the value proposition further still, LG Electronics made sure that the price of every set included all accessories. What's more, the company has worked hard to make sure that its product features appeal specifically to Indian consumers. Ballad, a flat-screen model, comes equipped with 2,000-watt speakers so it can emit the big bass sounds that Indians love.

India's 80 million senior citizens are spending more on their own welfare—particularly on medical services. Private health clinics are becoming more common, as are private schools that cater to the needs of affluent parents and their offspring.

India struggles to maintain a pipeline of sufficiently qualified talent to meet the needs of its rapidly growing economy. Nevertheless, homegrown companies have a head start in the race to retain the loyalty of the lucrative Indian consumer. And thanks in part to continuing restrictions on foreign entry and ownership—foreign banks, for example, are still prevented from taking stakes in the biggest and healthiest Indian banks—they are hanging on to it.

But the liberalization of the Indian economy, under way in earnest since 1991, is an inexorable process. Moreover, by imitating the approach of local companies, by partnering with them when appropriate, and by applying the lessons of global high-performance businesses, outsiders are catching up.

Adaptability is the key to success in India—entering into the fabric of society and learning how to work with Indians as partners, as well as customers, suppliers and regulators. That can be challenging, but also very rewarding. By learning to shape demand rather than just responding to it, and by providing the processes, systems and people that can meet rapidly changing consumer expectations swiftly and efficiently, outsiders can establish a profitable presence in these dazzlingly diverse markets.

About the authors

Armen Ovanessoff is a senior manager in the Accenture Institute for High Performance. He established the Institute's India office in New Delhi, where he has been located since September 2006. Within the Institute, Mr. Ovanessoff focuses on trends in emerging markets, having most recently written publications and developed perspectives on the business implications of globalization and economic growth in Asia. His work has often concentrated on the intersection between business, government and civil society, including the role of the private sector in bringing economic and social development to disadvantaged sections of society.

armen.ovanessoff@accenture.com

Anish Gupta the managing partner of Accenture's Products group in India. With more than 15 years' experience in business consulting, Mr. Gupta has worked with clients across Asia. Among other projects, he has led the business transformation of an Indian family-owned consumer goods company, developed a pan-Asian business model for a home appliances global leader and conceptualized a business model for a proposed agri-business initiative for a leading Indian conglomerate. Mr. Gupta is based in New Delhi.

anish.gupta@accenture.com

Outlook is published by Accenture.
© 2009 Accenture.
All rights reserved.

The views and opinions in this article should not be viewed as professional advice with respect to your business.

Accenture, its logo, and
High Performance Delivered
are trademarks of Accenture.

The use herein of trademarks that may be owned by others is not an assertion of ownership of such trademarks by Accenture nor intended to imply an association between Accenture and the lawful owners of such trademarks.

For more information about Accenture, please visit www.accenture.com

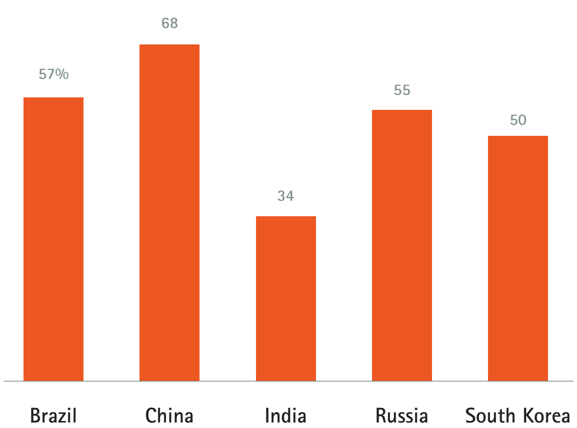
By the numbers

Great expectations

A growing population, well educated and economically active, offers an attractive new customer base.

Indian women are less active economically than their counterparts from other emerging markets. However, the number of Indian women enrolled in educational institutions rises every year, holding promise that the proportion of economically active women will rise.

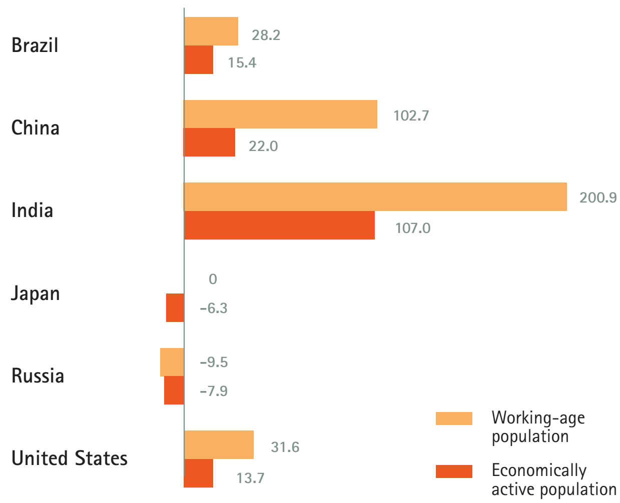
Economically active women* as a proportion of total female population, 2007



* Economically active women: women who furnish the supply of labor for the production of goods and services.
Source: International Labor Organization

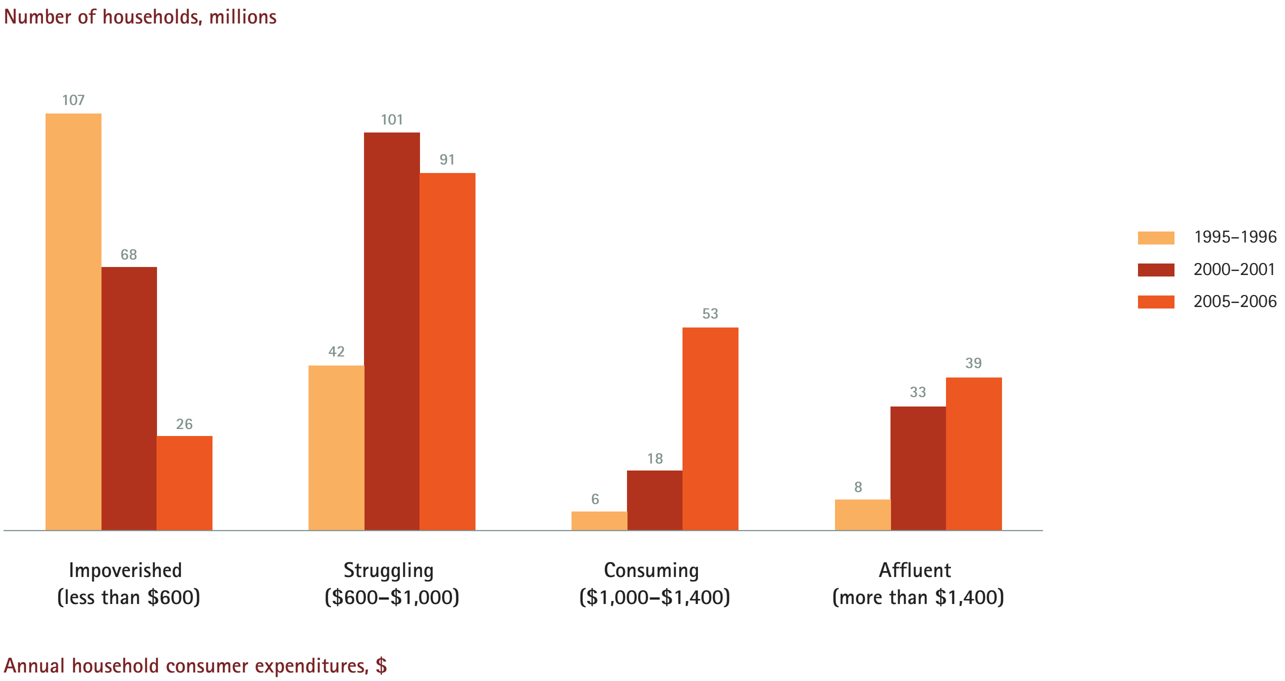
In fact, out of six major emerging or developed markets, India is expected to have the greatest increase in its economically active population.

Forecasted change in working-age population and economically active population in millions, 2007–2020



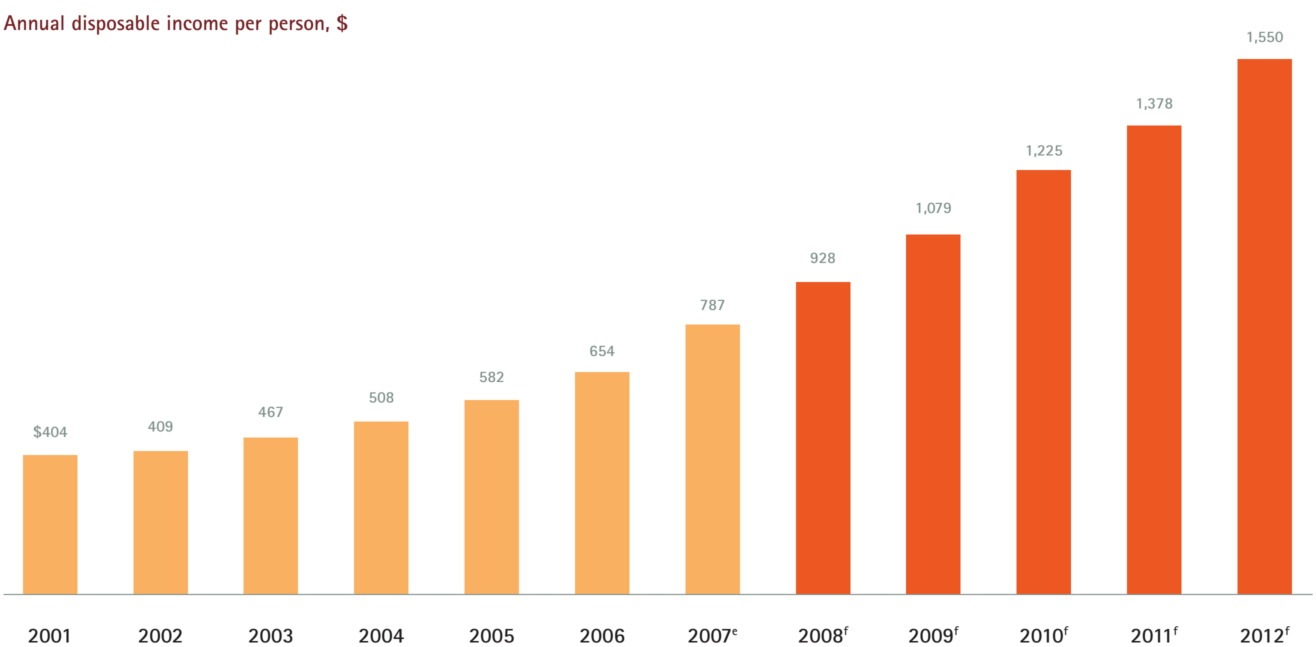
Source: International Labor Organization

The number of affluent and consuming families in India has risen markedly since 1995.



Source: National Sample Survey Organization, Ministry of Statistics of the government of India

Personal disposable income in India has been rising steadily as well, offering a new consumer base to sell to.



Source: Economist Intelligence Unit