Why India Now?

A rapidly growing middle class market demands attention.

By Aruna Chandra and John K. Ryans, Jr.

Finding New Global markets is essential for many U.S. consumer product companies today, particularly in light of the uncertain sales at home. Fortunately, the time has finally arrived to seriously consider India, a country that’s now rapidly moving from its long-held “sleeping giant” image to that of a major middle class market of some 250 million consumers. And many of these consumers are familiar with American products as a result of visits to their families in the United States or gifts received from them.

Would you believe, for example, that (according to India Today) on a busy weekend an estimated 80,000 pizzas are consumed in the five key Indian middle class cities—Delhi, Chennai, Kolkata (Calcutta), Bangalore, and Mumbai (Bombay)—or that Indian middle-class consumers are fans of U.S.-style TV dinners? Similarly, at the upper end of the marketplace, Ford has successfully launched its locally produced Ikon, and home computers, such as those produced by Hewlett-Packard, are becoming commonplace in Indian households.

Of course, not all of India’s 1 billion residents represent opportunities for U.S. business and consumer products. Many rural Indians are found in the “invisible market” described by Mahajan and colleagues in the Winter 2000 issue of Marketing Management. Still, a middle class of “only” 250 million (or 50-plus million households) represents a healthy opportunity for American firms. The five cities noted earlier appear to be keys to this opportunity.

To shed light on the Indian market, we must point out why it has recently become more accessible and what the research signals are that make it appear even more attractive today. Naturally, we recognize that each firm’s view of the middle class market will be different depending on their products and market segments. We present the experiences of several firms currently operating in India and provide suggestions for targeting the middle class consumers in that market.

New Accessibility

For years, Indian observers have watched the world’s largest democracy fail to achieve its potential. Its highly socialistic government “protected” its domestic economy and government monopolies through a myriad of trade and foreign-ownership regulations, and excessively high tariffs were common and literally sheltered local industry. This resulted in years of poor quality products, high prices, and little variety or choice for consumers, especially in the durable goods categories. When India joined the World Trade Organization (WTO), however, it was required to make major tariff reductions and to open its market to foreign producers. Incidentally, the Chinese companies were among the first to exploit the newly opened Indian market. They, along with companies from Taiwan and Singapore, captured the low-end electronics market.

In its current stance, the Indian government has also begun to privatize some government-controlled industry...
and has encouraged U.S. and other foreign investors to enter the market. A final factor affecting India’s accessibility to U.S. firms is its large English-speaking population, a result of its many years of British rule.

**Recent Market Signals**

New studies seem to appear daily suggesting the Indian market could offer significant potential to U.S. marketers. For example a poll conducted last year for *India Today* indicated the Indian middle class in the five prime cities mentioned earlier has grown substantially over the past 10 years in all income, products, and spending categories. Eighty-three percent of the respondents believe their lifestyles will further improve in the next 10 years. Also interesting to many marketers is the rapid growth of cable TV in these same key cities, which provides an important promotional medium for new entrants to the consumer markets.

Finally, Coca-Cola India and a research firm (NFO-MBL) recently completed a study among teenagers in the A, B, and C social classes (upper/middle income) that found teen ownership of high-ticket items is increasing and that they have a major influence in their households for products such as DVD players and mobile phones. This study also was conducted in Mumbai, Delhi, Chennai, Kolkata, and Bangalore.

Our own recent interview research on the Indian market has determined two major middle class population bases: (1) an American style urban middle class of about eight to 10 million households who are brand-conscious and are prepared to pay a high price for well-known global brands and (2) an Indian style urban middle class of about 45 to 50 million households who consume western style products, but are too price conscious to purchase consumer products offered by western multinational companies with any great frequency.

What’s important, therefore, is for most western consumer goods firms to focus primarily on these high potential urban consumers and to rely on the company’s own product-specific market segmentation to determine the market’s potential. Multinational managers have a mental definition of the middle class rooted in a western context. They sometimes tend to view the middle class in emerging markets using their familiar frame of reference, thereby leading to miscalculations of the size and purchasing power of the middle class in markets such as India. But their numbers are growing, and as the country’s economic fortunes improve, the urban middle class consumer in India could be a target segment for products with much broader appeal in the United States.

**Segmenting the Market**

Obtaining a strong foothold in the Indian market requires effective segmentation. Simply talking about the one billion consumers or even the two categories of middle class isn’t sufficient. Let’s use two examples from major U.S. firms operating in India to indicate ways to accurately segment the middle class. First, in an interview conducted Feb. 1, 2001, newly retired Procter & Gamble executive Helmut Meixner opined that doing business in India in the ’90s was extremely challenging and treacherous for global companies because too many of these firms were drawn in by the “seduction of large markets.” In his view, effective segmentation is critical to understanding and finding ways to market to the segment that the particular product appeals to.

For example, understanding cultural and socioeconomic forces at play in India helps in segmenting the market. India is a market with strong demarcations among different socioeconomic groups, and, given the economic polarization, household help is rather ubiquitous. In the Procter & Gamble executive’s view, the target market for dishwashing liquid illustrates the need for understanding these distinctions. His comments underscore the need to understand the consumer at various levels with very precise segmentation:

> “The top 3 to 5 million households would not spend money on dishwashing products because they have a maid doing the dishwashing, and the maid would waste the more expensive dishwashing soap. But, the next 5 million households could afford the soap and here the housewife is doing the dishwashing, and so it mattered to have a good dishwashing soap …The second 5 million households is the target market.”

Ford offers a somewhat different approach. This U.S. consumer durable goods producer seg-
ments the Indian upper-middle and upper-income market using psychographics and lifestyles. In an interview on March 9, 2000, Sivaramakrishnan, general manager-marketing and product planning for Ford India, made the following comment on the use of lifestyle segmentation:

“For the automotive sector, it is the upper class that is the target market. Here we did what is called psychographic segmentation research, which is distinct from demographic segmentation research. What we went into is not how much people earn, or what magazines they read. What we really wanted to look into was what were their habits and lifestyles. What were the emotional drivers of their lives? Having found the clusters, we targeted the clusters—what we called the ‘full of life’ segment, as our primary audience. ('The affluent puppy’ was our secondary target audience.) We understood what their key drivers were. They were auto enthusiasts, they worked hard, played hard, lived a fun aggressive lifestyle. We then focused the entire launch campaign for the newly designed Ford ‘Ikon’ around this theme and positioned the product as the ‘josh machine,’ where the Urdu word ‘josh’ means passion for life or spontaneous exuberance.”

The firm’s entire marketing campaign was tailored around connecting with the emotions of the target market. This approach was hugely successful for Ford. Rather than selling a car based on the theme that it was a high-quality car, built to last for Indian conditions, Ford looked at the key product benefit in terms of lifestyle and aspirational appeals.

These experiences each show that segmentation in India is both product-specific and context-specific and goes well beyond simply identifying the middle class. Certainly, the much touted size of the middle class is relative depending on the nature and type of product. With this recognition, U.S. consumer goods manufacturers operating in India have determined their own particular estimates of the middle class size and potential. And they are doing so on a product-specific basis.

**Guidelines for Entry**

For firms considering entry into the Indian marketplace, it’s important to understand the Indian market, particularly the middle class, on its own terms. Imposing traditional western notions of a western style middle class on the Indian market can be both confusing and misleading. As elsewhere, the middle class in India is stratified into several layers, but unlike the West, India’s layers differ far more in terms of purchasing power, literacy, socioeconomic grouping, usage patterns, and lifestyle aspirations and motivation.

It’s also important to segment the Indian market and adapt the product to meet your segment’s needs and market conditions. Remember that Ford developed a new product specifically for India. Also keep in mind that the Indian middle class consumer is both more price- and value-conscious than their western counterparts. Certainly most consumers want quality at a reasonable price, but in India it’s more likely to be the key determinant. Thus, it’s important to emphasize different price-value combinations for different segments of the middle class.

Product positioning is especially important in the Indian market. For instance, a marketing appeal for a cordless phone in the West would emphasize functional features such as clarity, range, privacy, battery life, and channel selection. In an emerging market like India, the same product may be positioned in terms of different attributes such as color, shape, design elegance, and even as a status symbol.

Finally, remember that the size of the middle class is a function of the type of product you are trying to sell. For certain big-ticket consumer durables, like automobiles, the projected market size may be a thin sliver of the upper-middle class, whereas for the lower-priced consumer non-durables, the potential market could be much larger. Effective segmentation is the first step for marketers approaching India’s emerging middle class market.

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