

# Meet The New Indian Consumer

How consumer behaviour is changing in one  
of the world's fastest-growing economies





**Ruben VARDANYAN,**  
Impact Investor and  
Venture Philanthropist

«The world has never been as dynamic as it is today: technological disruptions, demographic shifts, economic turbulence, and political unrest bring challenges on an unprecedented scale. Twenty years ago nobody could have imagined that the combined GDP of the top seven emerging markets could exceed that of the G7 countries. These markets offer both a great opportunity and a major challenge for any business. By establishing IEMS we wanted to contribute our views and insights to the dialog of business with policy-makers and NGOs in all emerging markets. We believe that open multi-stakeholder dialog will eventually help businesses and politicians come up with better-informed decisions that make a positive impact and drive change for better.»



**Karl JOHANSSON,**  
former Managing Partner,  
EY Russia & CIS,  
Chairman of the Analytical  
Credit Agency of Russia  
(ACRA)

«Studying emerging markets from within – that is the idea behind bringing together the research teams in Moscow, Hong Kong, and Hyderabad into the international and interdisciplinary research network. These are the most effective means to deal with the dynamics and complexity of the changing nature of emerging markets. Assisting international businesses better understand emerging markets and operating businesses in emerging markets expand globally – those are the strategic aims of the research initiatives at IEMS.»

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Ruben Vardanyan and Veronika Zonabend  
Family Foundation



#### RESEARCH PARTNERS



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# Authors

This report was compiled by the SKOLKOVO IEMS team.

**Yekaterina Molchanova**

Head Of Global Strategy Studies

**Kseniya Sokolova**

Analyst

**Olga Lemeshko**

Analyst

## Contributors:

**Alexey Kalinin**

Research Director

**Dr Lydia Kulik**

Head of India Studies, IEMS

Research Fellow, Institute of Oriental Studies,  
Russian Academy of Sciences

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Dear friends!

We are pleased to present a new report by the SKOLKOVO Institute for Emerging Market Studies (IEMS) on the consumer market in India.

We are currently living in a time of change when traditional patterns are eroding. The world is becoming more and more undefined, complex and interlinked. Traditional institutions are failing to meet these challenges and often try to ignore them. In this context, society's expectations of business are growing as businesses are capable of changing life for the better. It is unsurprising that the role of business leaders is becoming increasingly important. Whereas capital was once the main measure of success, talent is taking its place, and global competition is no longer over money and resources but over people. Adaptability, cultural intelligence and global thinking are becoming the essential features of the modern business leader.

Time magazine once noted that global CEOs are India's most important export. It is true that no other developing economy has been able to provide the world with so many outstanding heads of corporations, entrepreneurs, deans and professors. Examples include Microsoft, PepsiCo, Nokia and Harvard Business School. Furthermore, we are witnessing the rapid rise of Indian companies, such as Infosys and TATA, and they are just the tip of the iceberg.

You are holding in your hands a report on the new Indian consumer. As well as studying changes in consumer behaviour, the report's authors have looked at the context of the transformations happening in India: economic reforms, demographic, social and cultural shifts, economic growth itself and the development of infrastructure and individual industries.

I firmly believe that this work will be of interest not only to entrepreneurs considering stepping into the Indian market but to everyone who looks at their business in a global context because, despite the fact that all markets are different, we can always find shared approaches to studying them.

We are very grateful to EY for the long-standing cooperation and support they have given the SKOLKOVO Institute for Emerging Market Studies (IEMS). As a global company, EY will always be an important partner for us, helping us to better understand global markets.

**Ruben Vardanyan**

**Social Investor and Entrepreneur, Founding  
Partner of the Moscow School of Management  
SKOLKOVO**

**Chairman of the Supervisory Board of the  
Institute for Emerging Market Studies (IEMS)**



Dear colleagues!

Russian business needs new opportunities for growth. We firmly believe that these opportunities should be sought not only in Russia but on the international market too. Russian business representatives and entrepreneurs do not always have a sufficient understanding of the possibilities available in foreign markets. Developing countries deserve particular attention: here, the situation changes so quickly that only a deep understanding of the fundamental factors of market transformation can be used as the basis for building a long-term strategy for each individual market.

This report is intended as an introduction to India, which has always been seen in Russia as a mysterious, almost fairy-tale-like country. Perhaps, this is now truer than ever, considering the significant changes occurring in this enormous economy. One of the key driving forces behind this change is the new Indian consumer, who is the focus of this study. We firmly believe that understanding the new market must begin by trying to understand how consumers live today, and how they want to live tomorrow. Furthermore, according to the EY Growth Barometer, 43% of Indian middle-market businesses are expecting double-digit growth in revenue in 2018.

For several years now, we have been a strategic partner of the SKOLKOVO Institute for Emerging Market Studies (IEMS), whose mission is to help Russian businesses to discover new opportunities in the world's markets.

**Aleksandr Ivlev**  
**Managing Partner for CIS countries**  
**EY**



Dear Friends!

We are happy to present to you this new report by the Institute for Emerging Market Studies (IEMS) of the Moscow School of Management SKOLKOVO on The New Indian Consumer, prepared in cooperation with the Indian School of Business.

India is already one of the largest consumer markets in the world, with a growing trend towards urbanisation and digitisation. The new Indian consumer is ready to spend, and this dynamic, vibrant, young and aspiring market is attracting international companies to invest and capture its potential. This research focuses on analysing what categories of consumers there exist in today's India, their preferences, evolving attitude, lifestyle and habits. It would help businesses considering entering the Indian market, fine-tune their strategy towards this fast-changing environment. The report also serves as an illustration to the evolution of the world's major growth market, and India's unique experience of economic and social transformation.

The Indian School of Business and Moscow School of Management SKOLKOVO share a long-lasting historical connection, where Institutes for Emerging Markets Studies of both schools, inspired by EY, continue to play a special role. Joint research is one of the key areas of cooperation where the two schools will maintain their focus, besides development of educational programmes for the Russian and Indian, as well as international, entrepreneurs. We shall look forward to continuing our efforts in building bridges between the business and educational communities of Russia and India, and beyond.

**Rajendra Srivastava**  
**Dean**  
**Indian School of Business**



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# Why India indeed?

From a hulking elephant to a roaring lion, the image of India's transformation is still gaining momentum. The country is actively promoting itself on the international stage, with particular focus on establishing business relations. A clear example of this was India's landmark participation in the last World Economic Forum in Davos—the main meeting place for heads of business, political leaders, prominent thinkers and journalists. Held in January 2018, the 48th forum began with yoga lessons where two Indian gurus introduced the ancient practice to the attendees. Prime Minister Narendra Modi, the first Indian leader to attend the forum in 21 years, opened the event with a speech about the dangers of isolationist policies. The Indian delegation to Davos was also the largest in number: as many as 70 government and private business representatives urged countries and international companies to do business in India.

Since 2014, when Prime Minister Modi took office, his reformist policies have indeed attracted a lot of attention. His programme aims to remove regulatory barriers and ease conditions for business and, ultimately, to turn India into a global production hub. The results of these four years of work have varied: despite the attractiveness of the reforms, their real-life implementation is not an easy task.

Against the backdrop of debates on the viability of the reforms, another driving force in the Indian economy is often left in the shadows, one that is, in some ways, more significant and is already changing the face of modern India. A new Indian consumer is evolving. In many ways, these people — considering India's population of almost 1.5 billion — will define the economy not only of their own country and region but of the whole world.

In terms of consumer market development, India is now one of the most vibrant, attractive countries in the world, and it is likely that this will be the

case for several decades. According to data from the World Bank, in 2016 India became the seventh largest consumer market in the world: the total volume of its consumer spending was more than \$1.3 trillion<sup>1</sup>.

In the coming years, India's nominal year-on-year expenditure growth of 12% will be more than double the anticipated global rate of 5% [5]. Even if we take a conservative estimate and assume that GDP growth will be 6%–7% per year (according to data from the Boston Consulting Group), by 2025 consumer spending will reach \$4 trillion, and the country will take third place, overtaking Japan, Germany, the United Kingdom and France.

The favourable macroeconomic situation is supported by the optimistic mood of the Indian people themselves. For example, in a Credit Suisse survey of emerging markets, India ranked first in terms of optimism about personal finances and making large purchases for the second year in a row [14]. Indeed, Indian consumers are not spoilt for choice, they are hungry for new solutions, prepared to experiment, and are increasingly willing to spend. Readiness to spend, however, is not necessarily an indicator of wealth. Rather, it can be considered an indicator of potential.

It is not surprising that today a lot of international players are enthusiastic about the Indian consumer market. In 2017, more than 50 global retailers, representing various industries, from the fashion world to fast food, declared their intention to enter the Indian market [69]. International airlines such as Etihad Airways, Singapore Airlines and Air Asia have also started operating in India, which is now the fastest-growing airline market [91]. The American internet giants Google, Facebook and Netflix are actively fighting for the Indian online audience, and Amazon, which arrived in 2013, has already spent more than \$5 billion. It is worth noting that of all the countries

investing in India, it is its neighbour, China, that is placing the biggest bet on India's economic growth. In 2017 alone, more than 250 Chinese companies expressed their readiness to invest in the development of this market [68]. Besides interest in large infrastructure projects, Chinese companies are actively penetrating the Indian consumer market, especially in the smartphone, household appliance and online commerce segments.

Increasing activity in India is good news for Russian business. Relations between the two countries, which celebrated 70 years of diplomatic relations in 2017, have always been characterised by mutual affection and trust. The wave of Russian business interest in China was objectively late, so modern-day India is, in a sense, offering Russian companies a second chance to take full advantage of the potential of turning to the East. Despite having a developed infrastructure and a prosperous middle class, the Chinese market is increasingly suffering from the costs of 'maturity': tough competition, dwindling margins and limited possibilities for growth. In this context, a move to India looks like a bet on the future, which has yet to unfold. According to data from the McKinsey consulting company, India's consumer market lags behind China's by five to ten years [49], which means we can make predictions about its development on the basis of a familiar trajectory.

Meanwhile, Russian business, which has traditionally orientated itself toward the West, has a very incomplete idea of the Indian market. Russian business cooperation with India is currently focused on implementing projects in the military-industrial sector and in energy. Meanwhile, many companies working in other areas (for example MTS, Sibur and Kamaz) have faced difficulties expanding in India.

If we look at the situation in terms of doing business, India is indeed an extremely tough market, with a confusing web of numerous unique economic, political, social and cultural features. The difficulties of creating an objective picture of Indian life are also linked with the influence of frequently unbalanced information and media stories, which are dominated by reports on the imperfections of the social structure and badly implemented reforms, plus riots, violence and criminality.

There are also diametrically opposed assessments and judgments in expert circles on the most pressing issues on the Indian agenda, whether it be the status of women, relations between different nationalities and regions, the progress of reforms and international policy (which includes relations with China), and involvement in international associations and alliances. Such a diversity of opinions is facilitated by true freedom of the press as well as by the open political discourse which characterise this democratic country.

It is impossible to cover every aspect of Indian life in one report. Without denying the importance and complexity of the processes taking place in India as it undergoes transformation, in this work we have focused on a narrow but highly important aspect of the consumer market and tried to uncover the drivers of change in consumer behaviour in order to understand who this new Indian consumer is, for whom a great future is prophesied. By this, we mean the fundamental processes, driven primarily by demography, by the structure and pace of economic growth, by cultural shifts in social awareness and by efforts to integrate India into the global economy.

All the evidence suggests that India is changing, so Russian business should have its finger on the pulse. It is possible that, as with China, very soon the main problem with entering the Indian market will not be knowing the subtleties of the investment climate and the legislative framework but understanding Indian consumers, especially since their structure is so heterogeneous and has seen significant changes over the last decade. On top of the geographical, cultural and demographical differences, there are unique features demonstrated by the number of generations living in modern India. This report focuses on this topic. It should help representatives of Russian business to acquaint themselves with the main archetypes of the Indian consumer and learn about their desires, values and motivations. After all, understanding this aspect today could be a major competitive advantage tomorrow.

<sup>1</sup> For comparison: In Russia, this figure is around \$685 billion and in China, \$4.4 trillion.

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# India today

For centuries, India has been an important region with broad economic and cultural influence on others, including Europe and the Middle East. Today, India is more than just a densely populated country with a cheap, English-speaking workforce. The Indian nation is taking slow but steady steps forward in its economic and social development, striving to become a new driving force of the global economy. In the last 15 years, India has made it onto the list of countries with the highest rates of economic growth. Significant expansion can be seen in many industries, including telecommunications, retail, airlines, biotechnology and car manufacturing. The country's high GDP growth in recent years has been reflected in the lives of millions of people: income growth has led to an increase in purchasing power and consumption. Today, India is a high-potential consumer market—young, large and constantly growing.

Change has always been the foundation for growth. Indeed, through its attempts to solve its numerous institutional and infrastructural challenges, India is undergoing serious transformation at every level: social, economic and political. It is gradually being considered a promising production hub. It is to be hoped that the processes taking place today will bring about long-awaited change for international business, which will be able to take advantage of the strengths of this economy and take part in India's history of growth and transformation.

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## A country of contradictions: democracy and castes

India is a deeply ambiguous country. History shows that it has always been an attractive but complex country. Given the ethnic isolation of certain regions, the Indian subcontinent usually presented little difficulty in terms of conquest. However, conquering and ruling new lands were not easy tasks. The country resisted attempts at unification and control. Local communities always played an important role in Indian village life. Even since India gained independence, the central authorities have come up against distinct regional identities.

Today, as over the course of many decades, implementing the government's objectives and initiatives is heavily dependent on support 'from below', in other words, from local communities. In many regions, society is still self-regulating, with decision-making based on tradition, religion and caste heritage.

Thanks to the people's powerful voice, India occupies a unique position among developing

countries: after achieving independence from the United Kingdom in 1947, it was the largest democratic state in the world. A shining example of democratic principles in action was the victory, in 1966, of a woman in the elections for Prime Minister. The government was headed by Indira Gandhi, daughter of Jawaharlal Nehru, the first Indian Prime Minister. India remains to this day a country of real public politics with competitive elections, democratic changes in the 'party in power' and fierce battles for the local and state governing bodies. Unlike authoritarian China, India is a relatively 'self-governing' state with traditionally strong non-governmental organisations (NGO) and initiatives 'from the bottom up', which affect private business more than one might expect.

On the other hand, against this democratic backdrop, which implies the freedom to speak and be heard, one can still see the manifestations of entrenched caste division, which imposes restrictions on education, employment and marriage. Despite the adoption of an amendment

## THE INFLUENCE OF INDIAN NGOS ON THE ACTIVITIES OF INTERNATIONAL COMPANIES

Something which international companies entering the Indian market do not expect is the interference in business from stakeholder groups, local activists and NGOs. Some examples of this are the American company KFC and the German retailer Metro Cash & Carry, who were forced to amend their expansion strategies for the Indian market.

KFC was the first foreign fast food restaurant chain to arrive in India, in the early 1990s, after the liberalisation of the Indian economy. In 1995, it opened its first restaurant, in Bangalore; however, plans for its expansion were not destined to be realised. Protests began on the very first day: a group of activists accused KFC of illegally using large amounts of flavour enhancers, monosodium glutamate (MSG) and of frying their chickens in pig fat, which offended Muslims as they do not eat pork. To prevent an attack, KFC management requested that a police presence be on hand near the restaurant building for almost a year. That same year, another KFC restaurant opened in Delhi, but the combined income from both locations was not sufficient to continue operating in India. In 1999, when activist sentiments had died down, the company returned to the country and once again opened a restaurant in Bangalore, having learned from past mistakes. Nevertheless, KFC still regularly faced hostile accusations. In 2003, the organisation People for the Ethical Treatment of Animals (PETA) organised a campaign, involving local stars, against KFC's cruel treatment of chickens. Until 2004, KFC had only one restaurant in India. The next expansion only began in late 2005 when, with the economy booming and the popularity of western fast food growing, the business began to make money. KFC now has 335 restaurants in India.

Metro Cash & Carry, an international leader in the small-scale wholesale trade, also experienced the influence of local organisations when it arrived on the Indian market. Despite agreements with the central government, after the opening of its first distribution centre in Bangalore in 2003, the company faced protests from wholesalers who accused Metro of selling to retail buyers and of selling outside the state (at that time all states in India had varying tax regimes). Farmers and local shop and café owners believed the company was acting like a monopolist, violating the terms of the permit based on 100% investment in the Indian economy. As a result of the protests, the government of the Indian state of Karnataka revoked its license to trade in Bangalore (the state capital). Moreover, the local press published articles in which Metro was dubbed another version of the East India Company. These difficulties did not stop the German conglomerate, which continued to invest in the country and build relationships with farmers and traders. According to an announcement by the management of Metro Cash & Carry, India is currently a priority market for the company, which has already opened 24 distribution centres there and hopes to increase that to 50 by 2020.

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Based on material from 'Winning Strategies for the Indian Market' by Anuradha Dayal-Gulati and Dipak Jain and the websites The Hindu Business Line, MBA Rendezvous, IBS Center for Management Research, The Indian Express and The Economic Times (Times of India) [75, 15, 48, 37, 76, 64, 74].

to the Indian Constitution in 1950, which mandated caste equality and gave legal rights to the 'untouchables'<sup>3</sup>, in practice vestiges of the caste system remain in India, which poses a serious problem for comprehensive social and business development. According to the 2011 census, people from lower castes and 'registered' tribes make up a quarter of the total population.

Self-identification according to the caste system creates a difficult and contradictory situation when carrying out reforms: a compromise must be found between pursuing a policy of equal opportunities and playing to caste or religious affiliations. One can only hope that growing pressure from the market and economic growth will be able to influence this situation.

<sup>2</sup> 'Winning Strategies for the Indian Market' (Anuradha Dayal-Gulati, Dipak Jain).

<sup>3</sup> 'Untouchables' is the literal translation of the Hindi word 'Dalit'; the use of this word in India has been forbidden by law.

The combination of democratic foundations, weak centralised power and social stratification characteristic of Indian society has led to the increased significance of social institutions and informal personal interactions. The most important

factor when launching and doing business in India is establishing effective relationships with key stakeholders, including state institutions, trade unions and NGOs working at every level, from federal to state and local government.

## A country of diversity: the many Indias in one country

Among the countless colourful epithets that are used to describe India, you will find the word 'vibrant' applied to its colourful diversity. The country's astonishing religious, ethnic and cultural variety is comparable to that of the African continent. Indian society is like a pattern woven from a huge number of castes, regions and religions. These elements of Indian individuality can even be seen in surnames, which indicate a person's place of origin and the caste they belong to. For example, Chaturvedi and Sharma are representative of the Brahmins, but the homeland of those with the surname Chaturvedi is the West of the state Uttar Pradesh and the homeland of those named Sharma is the East of the same state. Singh, Arora and Chopra represent the Kshatriya, while Shetty and Rai are merchants.

According to the 2011 census, the main religions in India are Hinduism, 79.8% of the population, Islam, 14.2% (India has the third largest population of Muslims in the world [86]), Christianity, 2.3% and Sikhism, 1.7% [11]. India is the home of several hundred languages and two thousand dialects. The most common language is Hindi, which is spoken by 41% of the population. Hindi and English are the two working languages of the national government. Furthermore, the Constitution includes an official list of 22 languages (scheduled languages), which can be used by the governments of Indian states, including Bengali, Telugu, Marathi, Tamil, Urdu, Gujarati, Kannada, Malayalam, Oriya, Punjabi, Assam, Maithili and others [11].

FIGURE 1: FEATURES OF INDIA'S REGIONS

### NORTHERN REGION

- Key cities and sectors:
  - Delhi (national capital region); Delhi – Jaipur – Agra (Golden Triangle): trade and production centre
  - Kanpur: Japanese investment corridor and textile engineering
- Balance between heavy and light industry
- Headquarters of many Fortune 500 firms

### EASTERN REGION

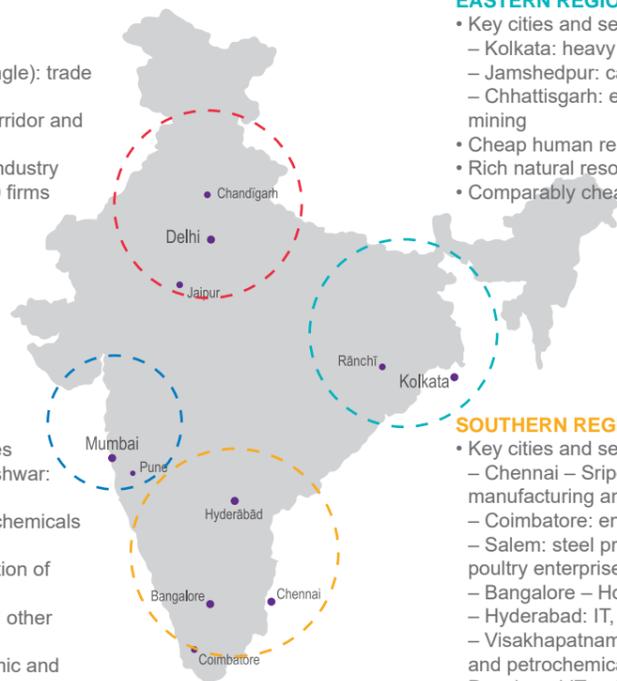
- Key cities and sectors:
  - Kolkata: heavy engineering and IT
  - Jamshedpur: car manufacturing
  - Chhattisgarh: energy, steel and iron ore mining
- Cheap human resources
- Rich natural resources
- Comparably cheap land

### WESTERN REGION

- Key cities and sectors:
  - Mumbai Corridor – Pune and Nashik: car manufacturing
  - Surat: textiles and precious stones
  - Ahmedabad – Vadodara – Ankleshwar: oil refineries, petrochemicals, pharmaceuticals, chemicals and fertilisers
- Government initiatives and stimulation of territories
- Fast-growing software industry and other high-tech industries
- A mix of cities with different economic and social hierarchies

### SOUTHERN REGION

- Key cities and sectors:
  - Chennai – Sriperumbthur: car manufacturing and heavy engineering
  - Coimbatore: engineering and textile industry
  - Salem: steel production, food industry and poultry enterprises
  - Bangalore – Hosur: IT
  - Hyderabad: IT, agriculture, pharmaceuticals
  - Visakhapatnam – Kakinada: oil, chemical and petrochemical industry
- Developed IT-outsourcing industry



Source: KPMG. (2015). Market Entry Strategy in India [45]

English plays a special role in India. As it has the status of an auxiliary official language, it serves as the main instrument for national, political and commercial communication and is also an important uniting factor. As Nandan Nilekani, co-chairman of the board of directors of the large Indian software company, Infosys Technologies Ltd., writes in his book *Imagining India: the Idea of a Renewed Nation*, 'In newly independent India, the English language had thus become a touchstone for neutrality and, given India's minorities—the southern states and the lower castes—some protection from what they saw as the tyranny of the majority' [92].

It was linguistic features which formed the basis

for the state's territorial division after it gained its independence. On an ethnolinguistic basis, 29 states and 7 union territories with elected governments and local governing bodies were established in India.

The diversity of the Indian nation can also be seen in the political sphere, which is dominated by numerous regional and national parties. In the last few elections, the Federal government was a coalition. There are two leading parties: the protectionist Indian National Congress (which led the country from 1947 to 1980) and Bharatiya Janata Party (BJP), which is in power today and, according to a number of researchers and analysts, is promoting ideas of Hindu nationalism.

## THE BIRTH OF THE FEDERAL STATE: THE BATTLE FOR BOMBAY

Addressing the idea of urbanisation, Nandan Nilekani, Co-Chairman of the Board of Directors of India's largest software company, Infosys Technologies Ltd., notes that 'The idea of the city as "the result of conflict" is particularly true in India'. Citing Bombay<sup>4</sup> as an example, he describes a situation where in 1950, after gaining its independence, across the country there was an 'emotionally fraught battle over dividing states along linguistic boundaries' [92].

Because of the close intertwining of peoples and languages, no state was able to lay unequivocal claim to the provincial cities. In the early 20th century, the territory of the modern state of Maharashtra contained parts of the provinces of Bombay, Hyderabad and the Central Provinces, which existed at the time. Bombay gradually expanded and engulfed all the lands of Maharashtra. As it spread into these lands it brought two languages: Marathi and Gujarati; however, Bombay trade was dominated by Gujaratis. Speakers of both languages, Marathi and Gujarati, began to work toward the creation of their own monolingual state. Particularly fierce arguments broke out over the 'pearl of India'—Bombay, the country's richest city.

The States Reorganisation Commission proposed making Bombay the capital of a bilingual state. However, politicians spoke out against this solution: according to the linguistic principle observed in all other cases, they demanded that Bombay be left to the state of Maharashtra, as it lay deep inside its territory. Then, Jawaharlal Nehru proposed making Bombay an independent bilingual territory under the direct control of the central government. In response to this proposal, Maharashtrians began organising protests and attacks on Gujaratis. The fact that Mahatma Gandhi was a Gujarati led people to destroy sculptures of him all across the state, despite his status as a national leader. Because the movement to create a Marathi-speaking state had led to outbreaks of violence, on 1 May 1960 the state of Bombay was split in two: Gujarati-speaking Gujarat and Marathi-speaking Maharashtra. 'The battle for Bombay' complicated the city's fate and weakened its influence for a long time.

Based on material from Nandan Nilekani's book 'Imagining India: The Idea of a Renewed Nation' [92].

<sup>4</sup> The city's modern name is Mumbai (since 1995). It is the administrative centre of Maharashtra state and the largest city in India. Its former name, Bombay, is still used by the city's residents and famous institutions and is also common in the West.

The Federal government of India gives states the right to make a number of key political decisions. For example, political initiatives for the development of infrastructure, land and labour, healthcare and transport come under the jurisdiction of the states, as do most decisions on giving out licenses and permits.

Thus, from a business standpoint, India is, first and foremost, a union of states and territories

which differ in a number of characteristics, from their official languages to their laws and local tax legislation. That is why people often describe India as 'many countries in one', and compare Indian states and territories with individual countries. For example, Uttar Pradesh, India's most populous state, has a population similar to Brazil's, while the most prosperous state, Maharashtra, with its capital in Mumbai, has an economy around the size of Austria's.

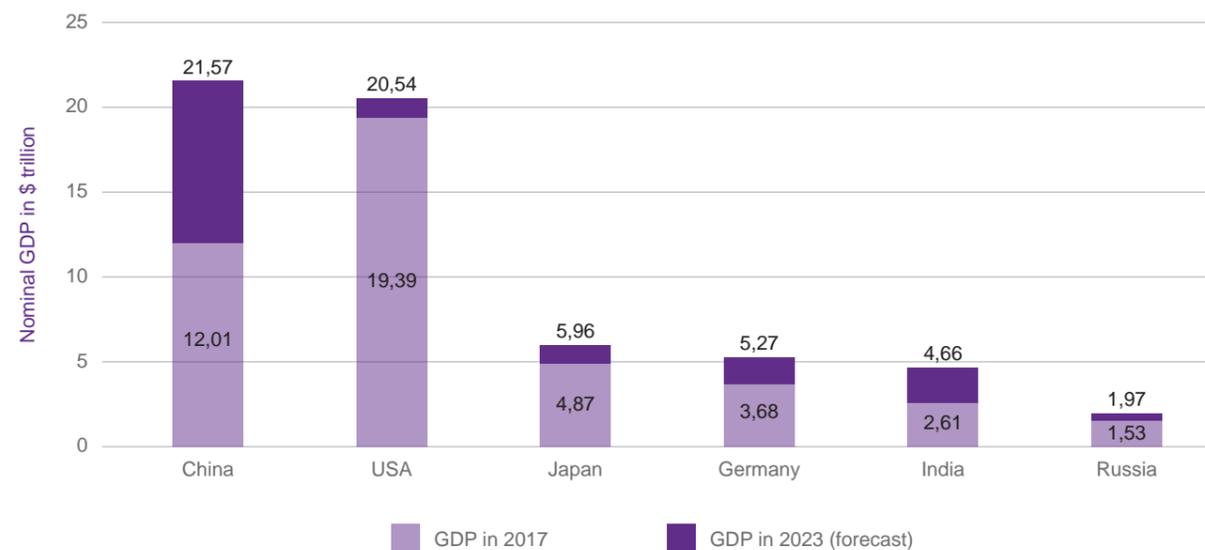
## A country of transformations: from the Middle Ages to the 21st century

Today, India stands with one foot in the digital age and the other in the middle ages. In terms of the modern side of life, the country has promoted itself as the world's leading centre for high-tech services, famous for its large global brands, such as Infosys and Wipro. Indian experience is used as an example of the successful creation of an ecosystem for technological start-ups and the introduction of new technology. Discussions within the field of research and development include mention of 'scientific sultanates' and outstanding education institutions. India's scientific and innovative potential has attracted the attention of many international corporations. In particular, according to a report by the Capgemini consulting

firm, Bangalore is now one of the five most favourable locations globally for multinational companies looking to establish innovation centres [70]. Indian-born executives head major Western corporations such as Microsoft, PepsiCo, Google Inc., Nokia, Master Card and others.

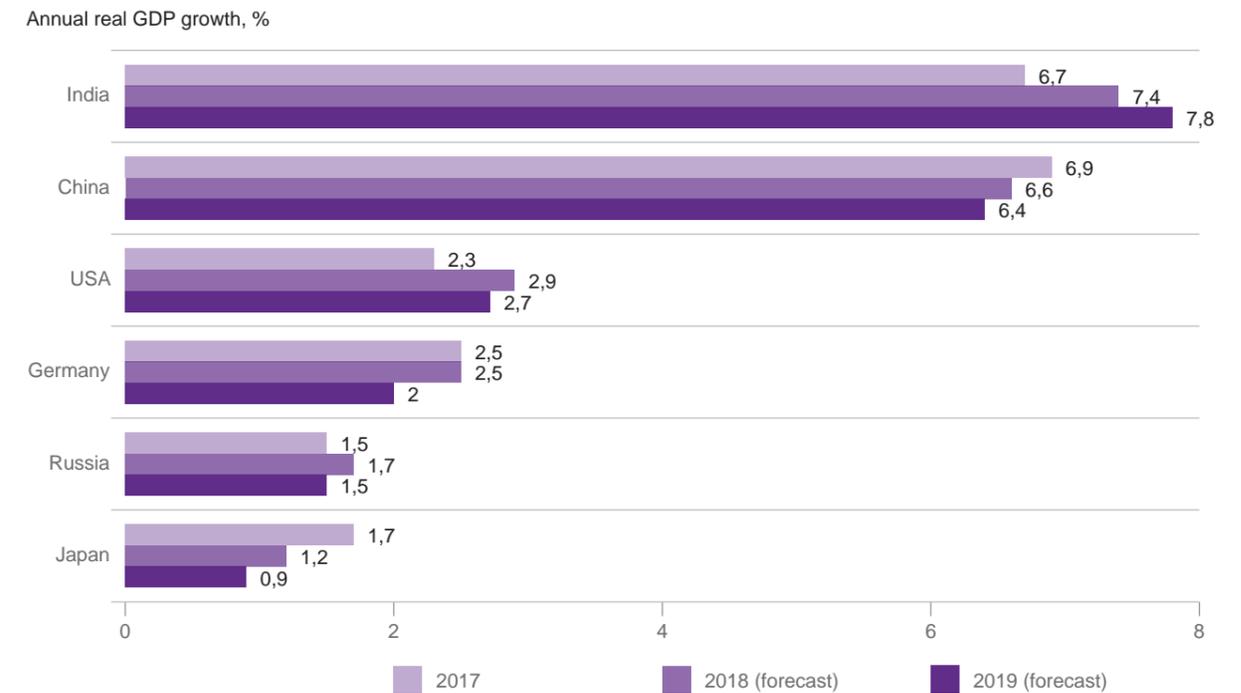
Though India is the fastest-growing democratic state, it is ahead of most countries in terms of slum size and the percentage of school dropouts. India's biggest shortcomings are thought to be the desperate situation of the poorest sections of the population and its colossal infrastructure problems. All of this clearly reflects the essence of Bharat.

FIGURE 2: KEY WORLD ECONOMIES IN 2023



Source: International Monetary Fund (2017). World Economic Outlook October 2017 [44]

FIGURE 3: GROWTH DYNAMICS OF THE WORLD'S LARGEST ECONOMIES



Source: International Monetary Fund (2017). World Economic Outlook October 2017 [44]

*Bharat* (from the word *Bharatavarsha*) is the local name for India, recognised as official in the Constitution. Unlike the modern English-speaking India, Bharat embodies the 'traditional' India, with its poor rural population deprived of the minimum means to support itself. They suffer from power outages, a lack of clean water, outdated sanitation, dilapidated housing and low quality or even the complete absence of roads. Many infrastructure facilities are overloaded. In comparison with China, Indian planes transport a quarter of the passengers and a tenth of the cargo. Despite the fact that India has the world's second largest road network (3.34 million km) as well as the world's second largest (and largest in Asia) railway network (63,028 km), their quality and operation leave much to be desired. Much of these networks were built back in the colonial era and did not provide connections between Indian villages and the large cities.

Nevertheless, modern-day India manages to combine the remnants of the middle ages with the promise of the new era, and Bharat, which has chosen its own special path, is moving smoothly into the 21st Century. Unlike many other developing countries, India's economy has an

atypical trajectory of development: from the raw material (resource-dependent) stage to the post-industrial (knowledge economy) stage, bypassing industrialisation. So, India has not increased its production base, but it has made a quantum leap in the field of high-tech services.

This leap has brought the maturity of the digital environment to an uncharacteristically high level for a developing country. Intelligent technologies are helping India to overcome infrastructural difficulties, as shown in the banking sector, for example. Since physical banking infrastructure is poorly developed and is concentrated primarily in the big cities, the country is actively moving from using cash as the main payment method to digital payments and mobile banking.

This development began in 1991 with reforms aimed at liberalising the economy. The measures taken by the government sought to remove barriers to international trade, reduce tariffs and customs, abolish the licensing system for companies in a number of industries and authorise foreign direct investment in certain sectors. Several years later, in 1997, India's accession to

the WTO cemented the country's commitment to the principles of global integration. The reforms provided opportunities for the emergence of new industries, including information technology and unprecedented development in the services sector. It is worth noting that the most noticeable results were achieved in the industries with the least regulation.

However, despite some successes, the reforms started in the 1990s turned out to be 'half measures' and in the long term did not have sufficient impact to improve the business climate significantly. The new wave of reform, which can be seen in India today, is in a certain sense the logical continuation of that policy. One of the main initiatives was the *Make in India* programme, which aimed to expand the production sector of the Indian economy and turn the country into a global production hub. This process is supported by investments in transport infrastructure and the creation of industrial corridors designed to increase accessibility and improve the connections between the country's regions. Thanks to these measures, tax reform and the introduction of a single goods and

services tariff (GST), over the last two years, India has managed to improve its business climate and climb 30 places in the World Bank's *Doing Business* ranking. Another key element of the reforms was the implementation of a biometric identification programme called Aadhaar, which covered almost all of India's population; a demonetisation programme which withdrew 86% of the country's notes and coins from circulation; and the Jan Dhan programme to open bank accounts for the population. Supporting innovation and small businesses are priorities for government, for example under the Start-up India and Digital India programmes.

A key feature of modern India is the change in mood and outlook. Even the most disadvantaged communities understand that it is not state benefits that will help them out of poverty but access to high-quality education and employment, which are created in an open economy. This change is also reflected in state policy. Thus, the current Prime Minister, Narendra Modi, has criticised the slogan *Garibi hatao* ('Remove poverty'), which guided the country for the last 70 years and identified development as a main priority [17].

## A country on the rise: large, growing and young

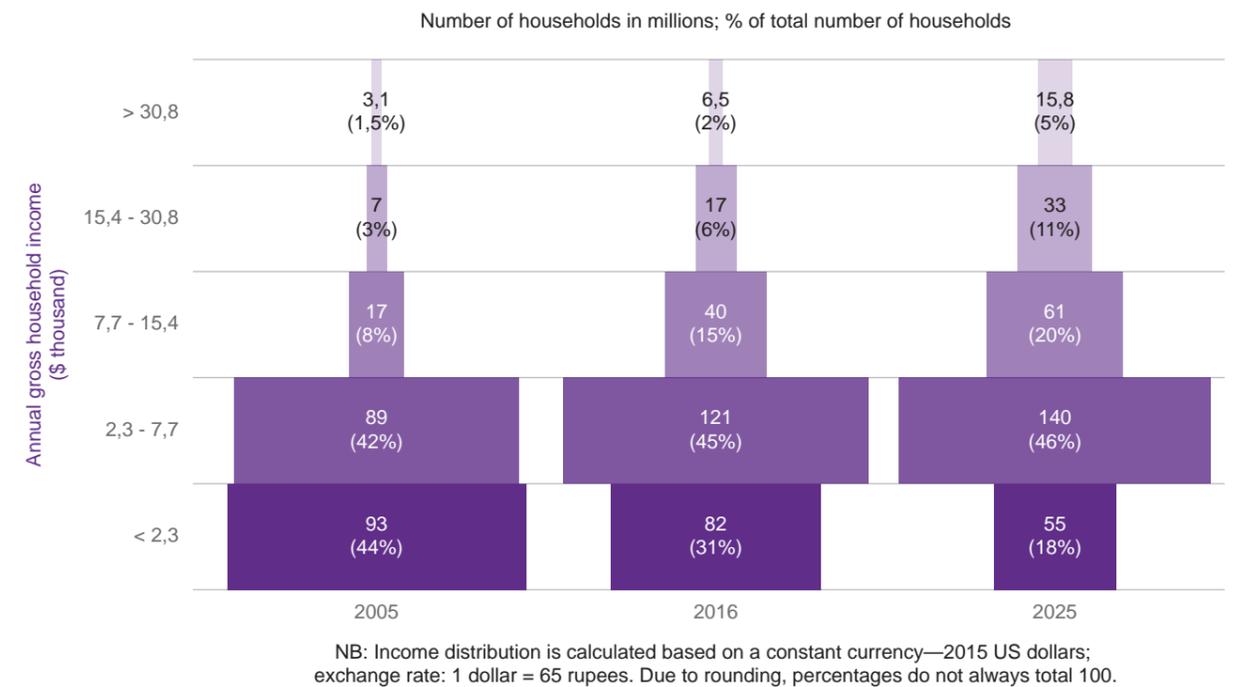
At a time when global markets are showing mixed trends, and the growth rates of many developed countries are slowing, India can be considered a rising star. The state claims to be the fastest-growing economy in the world, gradually overtaking China. If this dynamic continues, India will be one of the five largest economies by 2025.

Foreign businesses are also showing interest in the country, which is proven by foreign investments in its economy. In the wake of new reforms and relaxed regulation, capital inflows into India are rising steadily. In the 2016–2017 fiscal year, they reached a record \$60 billion [39]. The main beneficiaries of investment are the services sector (17%), telecommunications and computer technologies (16%), construction (10%), car manufacturing (5%) and pharmaceuticals (4%).

In addition, India is showing an astonishing level

of progress in science-intensive industries for a developing country. While China is outperforming its neighbour in traditional sectors where physical infrastructure is critical, India is becoming more and more attractive in non-physical infrastructure-related business, where intangible assets, software, biotechnology and creative activities are of particular importance [50]. Alongside the field of information and communication technologies (ICT) where the country is a leading exporter, India holds an important place in the global pharmaceutical sector: in particular, Indian generics (unpatented pharmaceuticals) account for 20% of global exports [88]. According to McKinsey, intangible assets have strengthened even India's automotive industry. While China's automotive industry is growing due to investments by foreign companies, Indian car manufacturing is developing as a result of its own engineers and designers [50].

FIGURE 4: INCOME DISTRIBUTION IN INDIA



Source: BCG (2017). *The New Indian: The Many Facets of a Changing Consumer* [5]

But perhaps the most important thing for India's economic development is the colossal growth of its domestic market. It is based on the emerging middle class, which was born in the early 1990s, during the reforms. There are 1,324 billion people living in India—that is, 18% of the world's population. According to forecasts, by 2022, it will have the largest population in the world [85], and by 2065 its population will be approximately 1.64 billion [71]. Experts currently disagree on the overall size of India's middle class. Figures range from 29 million people who, according to data from the Federal government, paid income tax in 2012, to 600 million. The latter group, according to the economists Sandhya Krishnan and Neeraj Hatekar, should include informal sector workers and people from the disadvantaged caste groups, who are traditionally overlooked but who have a steady income [3]. Certainly, the number of Indians crossing the poverty line and improving their quality of life is increasing steadily. This is also confirmed by BCG estimates, which show that the proportion of wealthy households in India is increasing, and, as a result, the picture of income distribution in India is gradually changing from a pyramid to a rhombus.

In addition to the growth of the middle class, India's youth is another important feature of its development. The average age in India is 26.6 compared with the global average, which is 30.1 (in Germany, it is 46.8) [10]. India has the world's highest proportion of young people: 18% of the population is aged between 15 and 24. This represents huge consumption potential since these young people are joining the market for the first time, and consumption is becoming a way of life for them.

The optimism of all sections of the population reflects this positive dynamic in the Indian economy. So, according to the consumer confidence index compiled by the company Nielsen, Indians' confidence in the stability of their country's economy has remained the highest in the world, even after the 2016 announcement of the launch of the controversial demonetisation programme [31]. For businesses, this is further evidence of the unfolding potential of the Indian economy.



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## Factors influencing the consumer market

The enormous transformation now taking place in India is fundamentally changing its life and the principles by which it functions. India is becoming a country with a vibrant and incredibly entrepreneurial economy. In the wake of large-scale state reform, growing investment, developing digital technologies and larger incomes, a window of opportunity is opening which offers great prospects for global business on the consumer market.

However, the size of the market is not the only thing worth paying attention to. A wide range of transformations in society have had a serious effect on India's consumer market: urbanisation, the formation of a new consciousness and changes in lifestyle. These trends are leading to the evolution of consumption patterns, and changing the volume of demand, patterns of spending and the mood among the Indian people. When consumers first enter the market, it takes on a number of attractive features, such as dynamism, active growth, flexibility and openness. In this section, we will look at some of the most important factors affecting the formation of India's growing and complex consumer market.

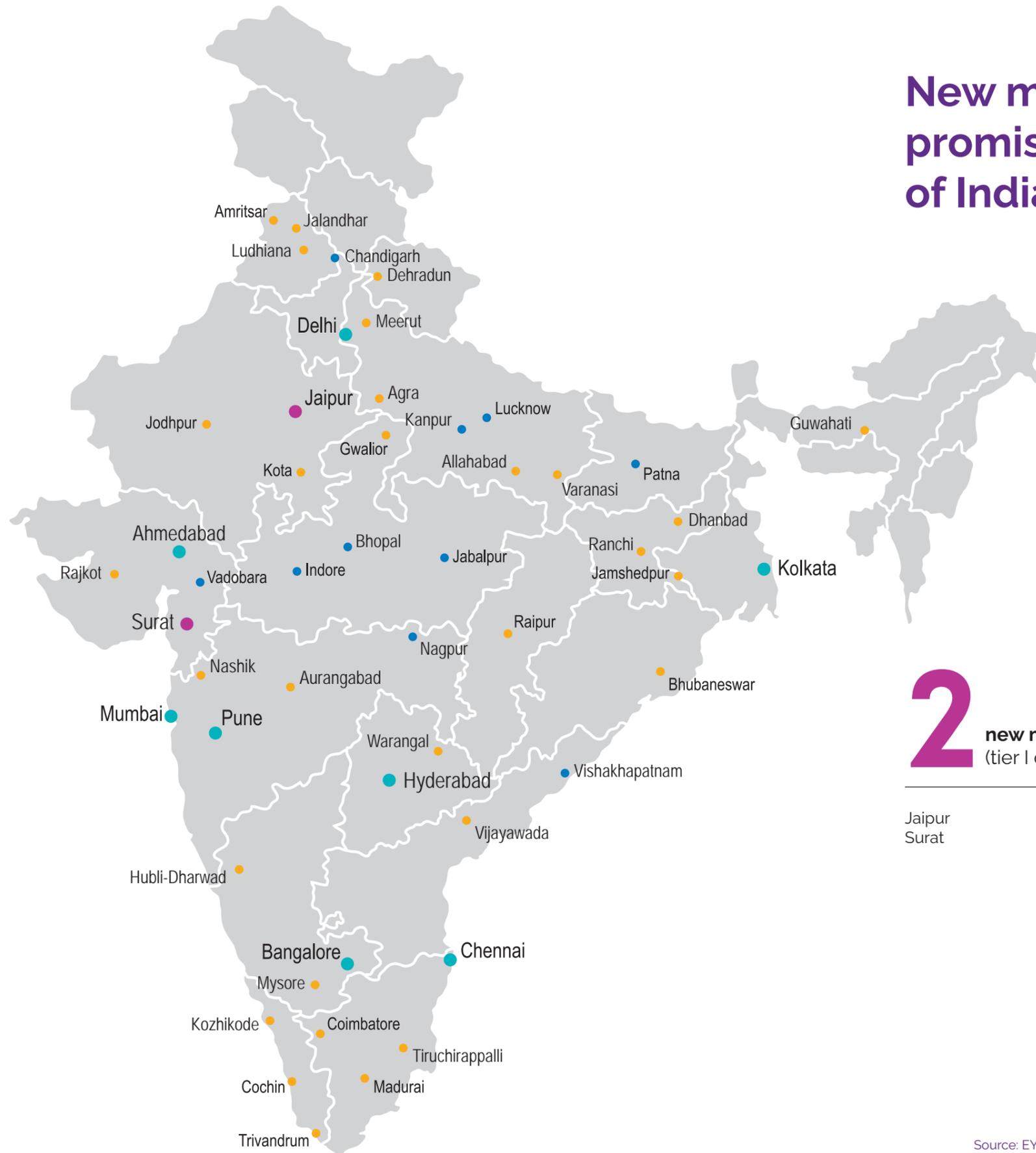
### Urbanisation

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India is considered to be a country 'living in villages'. In total, it has about half a million villages, which are scattered throughout its territory and occupy most of its geographical area. The fact that India remains an agrarian country in the 21st century, with around a third of its population living in rural areas, has its roots in history. After the country gained independence, the leadership was fascinated by the myth of the Indian village and considered the population's migration to the cities to be a damaging phenomenon, which needed to be limited or even stopped altogether. Nandan Nilekani gives an interesting description of this situation: 'Gandhi thought of cities as "a vampire that drinks the blood of the countryside"'. In many cases, the image of the village was overly idealised. It is unsurprising that after the declaration of independence cities were left on the side-lines of development. The neglect of the older, "native" city led to its widespread decline. Here, encroachments on public lands were common and in the absence of sewage pipes people "constructed privies opening into public streets." The wide roads of the Civil Lines wound

their way into narrow lanes and dead ends in this part of the city. These urban parts, filthy, ignored and expanding without control or plan, would, as it turned out, be the unfortunate blueprint for the modern Indian city.' [92]. This largely explains why Indian cities are so different to the images of global metropolises we are accustomed to, with shining skyscrapers and modern highways.

Today, the myth of the village is gradually being dispelled. Over the last 10 to 15 years, significant changes have occurred in cities across the country due to economic growth, infrastructure development and the service sector. In the coming years, the high rate of urbanisation in the country will be a deciding factor which will facilitate India's economic development, stimulate the growth of the middle class and increase disposable income. According to BCG data, by 2025, about 40% of India's population will be living in urban areas, and these city dwellers will account for more than 60% of consumption. [5].



## New markets: promising cities of India

**8** traditional metros  
(tier I cities)

- Ahmedabad
- Bangalore
- Chennai
- Delhi
- Hyderabad
- Kolkata
- Mumbai
- Pune

**42** new-wave cities

**2** new metros  
(tier I cities)

- Jaipur
- Surat

**10** cities with high-potential  
(tier II cities)

- Bhopal
- Chandigarh
- Indore
- Jabalpur
- Kanpur
- Lucknow
- Nagpur
- Patna
- Vadodara
- Vishakhapatnam

**30** cities with emerging markets  
(tier III cities)

- Agra
- Allahabad
- Amritsar
- Aurangabad
- Bhubaneswar
- Coimbatore
- Dehradun
- Dhanbad
- Guwahati
- Gwalior
- Hubli-Dharwad
- Jalandhar
- Jamshedpur
- Jodhpur
- Kochi
- Kota
- Kozhikode
- Ludhiana
- Madurai
- Meerut
- Mysore
- Nashik
- Raipur
- Rajkot
- Ranchi
- Tiruchirappalli
- Trivandrum
- Varanasi
- Vijayawada
- Warangal

Source: EY. (2017). India's growth paradigm [23]

The main drivers of urbanisation in India are the conditions in rural areas, with their poverty, lack of employment, poor healthcare and education. This reinforces the attractions of the cities, where people are offered new possibilities and the chance to improve their quality of life [22]. It is also important to note another effect of urbanization, namely the erosion of social barriers. Whereas in the villages the lower castes are held back by not having land, in the cities they have more opportunities to earn money, with the result that it becomes easier for them to climb up the social ladder. This has a huge impact on inter-caste relations, which leads to the breaking down of a centuries-old way of life, increasing social mobility and the transformation of values.

The change in attitudes toward cities is partly a result of Bangalore's economic rise. As a consequence of the rapid development of the IT sector and the outsourcing of business processes, demand for urban resources and infrastructure has risen sharply here and in other Indian cities. In this way, after decades of hostility toward urbanisation, there is an understanding not only of the importance of big cities but also of their vital role in economic development.

It is interesting to note the unique features of the model of the 'continuing' urbanisation of India. As such, unlike other developing countries in South-East Asia, here migration to urban centres is not focussed only on a few cities. India's urban population is growing, as is that of dozens of smaller cities across the country. What's more, there is a trend linked closely with urbanisation—the rapid formation of agglomerations, a kind of

## New consciousness

For many years, India's image was inextricably linked with a special kind of society. Religion, mythology and spirituality, closely intertwined with caste division, shaped India's culture, as we see to this day. A rigid hierarchical system with its roots in ancient times divided people into four Varna<sup>5</sup>, or classes: Brahmins (priests), Kshatriyas (warriors), Vaishyas (merchants) and Shudras

'belt' of urbanisation, where two or more towns with populations over 100,000 people merge.

In India, "tier-wise" classification is widespread, where individual cities and their groups are categorized based on population size. The international company EY has analysed the level of income and overall expected market size in Indian cities. According to their evaluation, thanks to a rise in household income, we are today seeing the formation of a 'new wave' of emerging consumer markets. EY identifies 42 cities that attract most of the new investment. They experience rapid economic growth and a subsequent rise in consumption. At the same time, the growth rate of consumer spending in developing cities (classes II and III) is higher than in metropolises (class I cities). This is primarily due to an increase in the growth of the middle class.

Because of urbanisation and increased social welfare, besides demand for goods and services for individual consumption, demand for goods and services for public use, such as urban infrastructure, is also on the rise [71]. Today, in India, it is not only companies which are pushing for improved infrastructure, but also city residents who are tired of sitting in traffic jams, suffering from power outages and living in shabby apartments. Indian consumers are becoming more discerning and are taking an interest in the creation of a comfortable urban environment. The economy's dependence on infrastructure makes the quality of urban life a priority and largely determines the growth of investments in infrastructure, as it does the construction and organised retail boom.

(servants). With time, as social ties became more complex, and new professions appeared, the structure was subdivided, and the Varna were divided into thousands of castes and tens of thousands of sub-castes [4]. As the borders between castes and sub-castes are often blurred, the Indian people themselves prefer to use the word 'jati', which covers not only castes but also

clans and communities.

For centuries, a complex social organisation was built around the status of Brahmins, whose authority was, for all intents and purposes, an alternative to state government. It is not surprising then that caste norms have long had more significance than state laws, and in the villages the customs of the community continue to dictate people's living conditions.

The cult of the Brahmins has defined the value system of Indian society for centuries. Spiritual knowledge, simplicity, restraint and patience, preached by the Brahmins, have become for the Indian people the main guidelines which define their world view and behaviour. Even after India achieved statehood, its rulers continued to promote Brahmin values. 'Simple living and high thinking' is one of Mahatma Gandhi's famous teachings. The emphasis on intangible values was, to some extent, a unifying factor for a poor nation: the significance of spiritual development and fear of subsequent retribution drove out thoughts of need and taught people to think of difficulties as an experience sent down by God.

The break in traditional thinking occurred in the 1990s, when the liberalisation of the economy opened a window onto another world. New jobs, opportunities to earn and a basic sense of control of one's own fate fundamentally affected the national consciousness. This period is described particularly well in Dheeraj Sinha's book *Consumer India: Inside the Indian Mind and Wallet*<sup>6</sup>. Economic growth and the consumer culture it brought with it have given Indians a chance to feel the power of success and individualism. For a nation which, for a long time, lived on a collective basis, with limited resources, this was a true metamorphosis.

Dheeraj Sinha explains how this new India has found a connection with its cultural roots in the lifestyle of the Kshatriya warriors. Their character traits were valour and a competitive spirit. Until recently, these qualities were overshadowed by the dominant value system preached by the Brahmins. Today, however, we are increasingly seeing that the need for action, victory and heroism

is replacing traditions of asceticism and humility. The transition to so-called Kshatriya thought is especially noticeable in the younger generation, which, by virtue of its large number, strengthens the multiplicative effect of these transformations of values. 'Karmic transformation', or the emerging belief that everyone has the power to change their own fate, has become a key driving force shaping the new Indian consciousness. And that is what ultimately decides what modern Indians dream of and strive for, and how they behave.

This change in values and customs is clearly reflected in Indian cinema, known as Bollywood, which has long been considered a mirror of Indian life and society. 1995 saw the release of one of the highest-earning films in the history of Indian cinema, *The Big Hearted Will Take the Bride*<sup>7</sup> (the main character was played by the king of Bollywood, Shahrukh Khan). The story concerns a young man who overcomes all obstacles to getting the blessing of his beloved's parents. In 2008, the film *A Match Made by God*<sup>8</sup>, also starring Shahrukh Khan, dominated the Indian box office. This time, the hero falls in love with a married woman and asks her to run away with him to find happiness together. The abrupt change in plots reflects the colossal changes that have been taking place in Indian society over the last 10 to 15 years.

In addition to questions of morality and honour, Indians' attitude toward money and entrepreneurship has changed significantly. Historically, qualities such as initiative and assertiveness did not earn respect in Indian society. In particular, the Vaishyas, the merchant class, were ranked third, above only the Shudras, the servant class. Jawaharlal Nehru treated businessmen with contempt, and Indira Gandhi described them as 'dark and evil forces' [92]. Entrepreneurship was practiced within a particular class, while most Indians preferred administrative work in the public sector.

Over the last two decades, a new class of entrepreneurs has appeared as a result of relaxed state regulation and with the development of the ICT sector. They have managed to overcome

<sup>5</sup> Translated from Sanskrit, this means 'colour' or 'quality'.

<sup>6</sup> Consumer India: inside the Indian mind and wallet (Dheeraj Sinha).

<sup>7</sup> 'Dilwale Dulhania Le Jayenge' in Hindi, 'The big hearted will take the bride' in English.

<sup>8</sup> 'Rab Ne Bana Di Jodi' in Hindi, 'A match made by God' in English.

## BOLLYWOOD'S MARKETING POWER

One of the first associations which arises when India is mentioned is Bollywood — Indian cinema. The word itself is a combination of two words: Bombay and Hollywood. In fact, the name 'Bollywood' appeared relatively recently, in the second half of the 20th century, and does not refer to all Indian cinema but the films shot in Mumbai and in Hindi.

Today, the Indian film industry ranks first in the world in terms of number of films. Every year, India releases 1,500–2,000 films in more than 20 languages, mainly in Hindi, and although Bollywood lags behind Hollywood in total gross revenue, it surpasses it by far in the number of tickets sold: 2015 boasted more than 2 trillion ticket sales. There is good reason that cinema was included in the Make in India programme as one of the most promising industries. It is expected that by 2020 gross sales will reach \$3.7 billion.

For Indians, Bollywood is almost a religion. The film industry has a huge impact on numerous areas of Indian life, including culture, daily life, the economy and business. No wonder Dheeraj Sinha calls Bollywood films 'masala entertainment' — a colourful Indian-style creation seasoned with singing, dancing and, of course, a storm of emotions. It can be said that consumer preferences and the desires of the Indian people are shaped under the influence of Bollywood.

But the commitment to Indian cinema is born not only through music and dance — often the secret of its charm lies in the star performers, whose legions of fans revere them on a par with Indian politicians or religious figures. Everything these celebrities touch 'turns to gold'. This influence is clearest in the fashion world. Indian stars are style icons, emulated by millions of fans. Any outfit or accessory worn by a popular actor or actress immediately becomes a hit. In addition, these films introduce millions of Indians to new brands and types of goods. Local and international firms — from Coca-Cola and McDonald's to Honda and Castrol — actively use subliminal advertising and product placement.

As well as influencing consumer preferences, Bollywood shapes general views and values, right up to attitudes toward other countries. For example, according to some studies, when choosing holiday destinations abroad, Indians are significantly more interested in countries whose landscapes were shown in Bollywood blockbusters.

As the vast Indian diaspora spreads around the world, the degree of Bollywood's globalisation increases. Today, many blockbusters earn more than 30% of their box-office revenue from international markets. The highest earnings are recorded in cinemas in West London, and when the film 3 Idiots (2009) was showing, almost half of its earnings came from outside India — from China. Indian film and dance festivals are held for Bollywood fans around the world, and a Theme Park was opened in Dubai in 2016. England and Switzerland, where parts of Indian films are often made, even offer tourist maps with routes which show the filming locations. In this way, Bollywood's influence is gradually reaching far beyond India.

Based on material from the websites DESIblitz, The Economic Times (Times of India), the book Consumer India: Inside the Indian Mind and Wallet by Dheeraj Sinha, the magazines Global Journal of Finance and Management and Hospitality Review [62, 16, 29, 36, 65].

obstacles and build successful businesses as from scratch. Self-made businessmen, such as Dhirubhai Ambani of Reliance Industry, Narayan

Murthy of Infosys, Sachin Bansal of Flipkart and many others, have become national legends and changed the attitude of Indians toward

entrepreneurship. At the same time, Bollywood has displayed a change in mood, as was shown by the release the blockbuster Go For It India! in 2007<sup>9</sup>. The film tells the story of the creation of a national women's field hockey team. It captured the hearts of viewers with its tagline 'Sometimes Winning Is Everything!'<sup>10</sup>. Achieving goals became important for Indians as striving toward them.

The prospect of success and becoming rich is driving more and more Indians to get involved in entrepreneurship. In particular, according to the results of a study by the global recruitment company Randstad Workmonitor, in 2017, 83% of working Indians wanted to become entrepreneurs (for comparison: the global average is 53%) [58].

## Lifestyle changes

Indian society has traditionally been patriarchal. High employment in agriculture contributed to the creation of large families that provided support, stability and economic security. Nowadays, family ties and nepotism still play an important role, for example, in getting a job or providing financial assistance. In India, due to local customs and weak social policies, the care of the older generation is usually entrusted to children, their large number guaranteeing 'security in old age'.

In practice, the tradition of creating a complex patriarchal family in many cases means that parents, children, grandparents, uncles, aunts and cousins live in the same house or next door. In rural areas, it is not uncommon for four generations to live under one roof. Large families are often so close that aunts and uncles, grandmothers and grandfathers play the same role in raising children as the mother and father. It is worth noting that there are many more terms for relatives in India than in English. Their use strengthens relationships. In the state of Gujarat, even personal names often contain the word 'sister' or 'brother', so they sound affectionate and caring.

In patriarchal Indian households, the boundaries of hierarchy and authority are clearly defined, which

Indian people, especially the youth, are gaining confidence in their abilities and the possibility of changing their fate. As Dheeraj Sinha boldly said, 'suddenly, ability, and not capital or heritage, is the main currency in the country'.

The formation of this new consciousness directly affects the dynamic of consumer markets. The new, more free-spirited generation of Indians is increasingly looking for outlets for self-expression — in their style of dress, choice of gadgets, ways of spending their free time or planning their travels. Speed and convenience have become a priority. It is no surprise that the Indian e-commerce market is growing by more than 30% a year [38].

create complex family relations on a structural and psychological level. New marriages are often 'arranged' by the parents of the bride and groom. Great authority is enjoyed by the men—in Sanskrit the word 'husband' means 'master'. Nevertheless, some Indian peoples place special significance on the woman, especially the mother of the groom, for whom the young bride takes on the role of 'servant'. Behaviours in this case are aimed at creating and maintaining family harmony [33].

Despite traditional social structures, economic growth is having an increasing impact on Indian daily life and lifestyles. Increased urbanisation, greater mobility of the population, weakening caste divisions and the spread of information are transforming the way of life in modern India. This is manifested primarily in changes in the composition of the family and the position of women.

Over the last two decades, the proportion of nuclear, or small, households consisting of one generation, made up of parents with children or without, has risen significantly to 70%. According to forecasts, by 2025, it will reach 74%. This trend is probably linked with the overwhelming share of young people in the population. There are 441 million so-called 'millennials' (born between

<sup>9</sup> 'Chak De! India' in Hindi, 'Go For it! India' in English.

<sup>10</sup> "Come back and win it" attitude is promoted by the film.

1980 and 2000), and 390 million are part of 'generation Z' (born after 2000). This ongoing shift plays an important role as small families spend 20-30% more per capita than large (complex) families. Consumer decision-makers in nuclear households are younger and more optimistic than in complex families and are therefore less focussed on functionality and more on lifestyle and the need to keep up with fashion, especially in categories such as consumer durables and clothing.

Another characteristic of modern India is the gradual change in the role of women in the family and society. Traditionally, a woman's life could be divided into stages, each of which corresponded to a specific role (bride, wife, mother), and her functions were reduced to performing household duties. Today, however, partly because of the spread of small families, the relationship between husband and wife is transforming from subordination (dependence) to a partnership or equality [62].

It is especially noticeable in cities that women live 'double lives'. On the one hand, it involves a social or business environment in which a woman may manage a small shop, work in an office or have a remote part-time job. Attitudes toward the family budget are interesting in this regard. Despite the fact that prosperity is considered a shared resource, and the husband maintains the 'signatory right', women take pride in the opportunity to contribute and regularly involve themselves in budgeting and savings. On the other hand, the woman is a noble wife (suhagan) who at the weekends visits the husband's family wearing traditional Indian dress, with bracelets and rings on her hands and feet. This way, the woman continues to be the keeper of the hearth, the caring mother and the loyal adviser to her husband. However, she not only needs the support of those close to her, she also requires public acceptance.

Nevertheless, the changes in attitudes toward women in India should not be overstated. Despite positive developments in the cities, the situation of women continues to be precarious across the country. There is widespread abuse, harassment and violence, and Indian women's participation rate in the labour force is about 27%—one of the lowest rates in the world [87].

Attempts to change the position of women in society are supported at the state level. This is shown by new electoral rules, improved medical care and increased media attention on 'women's issues'. Education opportunities are an important factor. From 2005 to 2014, girls' enrolment in secondary education increased from 45.3% to 73.7% and is now higher than that of boys. Young women have bridged the gap in higher education too: their enrolment rate now stands at almost 20% while that of young men is 22%. [5].

This shift is having a significant effect on the social and economic aspects of Indian life. If the falling birth rate continues, this will lead to a general rise in the level of education (educated women will strive to provide their children with an education, and this can be more easily achieved in smaller families) and to an increase in productivity through employment opportunities (women will be less occupied with housework). According to calculations by economists, if women were involved in the economy on an equal footing with men, India's GDP per capita would grow by 27% [60]. The positive effect of women being more involved in the economy is proven in the examples of other countries, such as Japan and Indonesia, whose governments have a targeted policy to increase the female labour force [12, 83, 63].

Lifestyle changes and the resulting expansion of the woman's role significantly affect the consumer market, especially in the cities. Women are increasingly involved in shaping demand, especially for durable goods, domestic products, medicinal services and education, as well as for modern retail formats.

# Categories of consumer in India

Behind these general driving forces, the new Indian consumer is extremely heterogeneous. The large size and youthfulness of the population undoubtedly make it an attractive market, but they do not give a full understanding of what lies behind the size and age, nor do they reveal how different social and demographic groups live. Therefore, it is important to categorise Indian consumers and highlight their shared characteristics and differences. As a basis, we propose using levels of income, which determine consumer preferences and willingness to spend, and the place of residence, which reflects the level of accessibility of each consumer category. With these parameters in mind, we have identified the following groups: 'urban middle class', 'young specialists', 'well-off rural population' and 'those in need'.

In addition to shared characteristics, we will look at the factors affecting the decision-making process and shaping the values which directly dictate consumer behaviour and demand for certain product groups or distribution channels.

FIGURE 5: CATEGORIES OF CONSUMER IN INDIA



Source: adapted from a work by Goldman Sachs (2016). India Consumer Close-up [30]

## PORTRAITS OF INDIAN CONSUMERS



### URBAN MIDDLE CLASS

Geku (40) and Tahisha (35), together with their son Abhei, live in a residential area of Mumbai in their own three-room apartment. Geku works as a chief accountant in a large Indian state company, and Tahisha is a paediatrician in a children's clinic. The family's annual income is over \$20,000. Their son Abhei studies at a private school and plays cricket at the weekend. Twice a year, the family flies to Chennai, in Tamil Nadu state, where Tahisha's parents live. Geku recently bought a new Hyundai car on credit. The family now does its shopping not only at D-Mart, a corner shop, but also in a hypermarket, Best Price (Walmart). Tahisha loves to walk around the shopping centre and buy products of western brands, although when it comes to cosmetics she prefers Indian ayurveda.



### YOUNG SPECIALISTS

Advika (24) lives in a small house in Bangalore with her parents, brother and grandmother. She works as an analyst at an IT company and earns around \$6,000 a year. Advika has her own scooter which she rides to work. On weekends, Advika regularly gets together with her friends—former fellow students from the Bangalore Institute of Technology. Pizza Hut and KFC are her favourite meeting places. Besides this, they go to the cinema to watch Bollywood blockbusters and talk about their latest gadgets. Advika wears western clothing, although she often wears a kurti, a traditional Indian tunic. Advika has little free time, so she buys her clothes and cosmetics on Amazon or Flipkart with her Samsung smartphone.



### THE WELL-OFF RURAL POPULATION

Samar (47) and Nitya (45), together with their sons Shingar, Yazbir and Divat, live in a large house in the village of Narwana in Gujarat, one of the most prosperous Indian states. Samar grows cotton, and Nitya is a housewife. With an annual income of \$7,000, the family members are careful with expenditure. They do their shopping at kirana shops, village shops or markets, and for large purchases they drive their Tata car to the neighbouring town of Rajkot. Samar and Nitya are both guardians of tradition, so family and religious holidays are celebrated with enthusiasm and extravagance. The family prefers gold jewellery to any other gifts. Unlike Samar, Nitya actively uses the internet and has already found a wife for her eldest son on the website BharatMatrimony.com.



### THOSE IN NEED

Kanwal (26) came to Kolkata to make money. In his native village of Gourhati, he was a seasonal worker: during the cultivation and harvest periods, he worked the fields, and in winter he worked part-time in a warehouse. He came to Kolkata to work in construction. Earning less than \$2,000 a year, Kanwal is forced to live in the slums. Together with three other villagers, he rents a room in a concrete house with electricity. The room has an Onida television and a Godrej fridge. Kanwal spends the rest of his earnings on food, mostly ready-made food which he buys on the way home from work from a street vendor. Kanwal's largest purchase was a Xiaomi smartphone, which he uses to communicate with his parents, listen to music and look for jobs.

## Urban middle class

The urban middle-class group is, by Indian standards, relatively small, but it is extremely attractive from the point of view of the market. The Indian middle class includes those working in state organisations, public-sector workers in state agencies, healthcare and educational institutions and owners of small- and medium-sized businesses (SMBs). According to Goldman Sachs, this group accounts for about 27 million people in all, which is 5% of India's total working population and 17% of all urban workers [30].

As of 2015, the average annual income of the urban middle class was \$11,000 [30]. The shared characteristics within this group are a lack of problems with accommodation, ownership of a car and the possibility of buying items for long-term use, such as domestic appliances and furniture. As a rule, members of the middle class are family-oriented, aged from 30 to 45 and live in metropolises and large cities.

Having lived through the liberalising reforms of 1991 in their youth, the Indian urban middle class bear the imprints of both the old and the new India. They remember a time when their parents had to wait for a year for the delivery of their long-awaited Bajaj scooter. Today, they have expansive possibilities before them, starting with their choice of education and profession right through to their purchasing decisions. Knowing the value of things, the urban middle class is prudent and cautious, although they have learned to treat themselves occasionally, and to enjoy the fruits of the consumption era. This is particularly noticeable in their interest in India's cultural character. Folk traditions and holidays are celebrated more vibrantly and on a larger scale, but with a touch of modernity. As Dheeraj Sinha, author of the book *Consumer India: Inside the Indian Mind and Wallet*, put it this generation 'wants to sing the lyrics of yesterday to the tunes of today'<sup>11</sup>

## INDIAN BEAUTY

Nothing so clearly characterises the changes among the Indian people as their attitude to their own appearance. Throughout the country's history, a person's appearance was considered secondary to what was inside them. In arranged marriages, preference was given to girls who could sew, sing and dance, and marriage itself was thought of as the ultimate goal in a woman's life. Many people's views changed in 1994, when representatives of India unexpectedly became finalists in the Miss World and Miss Universe contests [62]. Beauty suddenly came to the fore and began to symbolise independence, success and freedom of expression.

Today, the Indian cosmetics market is one of the fastest growing in the world. With growth of 13%–18% each year, it is almost twice the size of its American and European counterparts, and is expected to reach the \$20 billion mark by 2025 [21]. Beauty products are in demand not only from

women; men account for a significant part of the growth. In fact, in the last five years, the male grooming market (hair and beard care) has grown by 42% [66]. Indian men are second in the world, behind Mexicans, in terms of the amount of time they spend on their appearance each day (30 minutes) [56].

One enduring symbol of beauty in India is fair skin. It is unsurprising then that cosmetics for whitening and lightening are so popular in the country. The first lightening cosmetic brand appeared in India in 1975, when the Unilever conglomerate released its Fair & Lovely line. Today, issues regarding skin colour are more sensitive, so advertising skin-whitening substances is forbidden. However, this has not stopped the market from growing. Indian men are largely behind this, which is proven by the success of the recent release of the 'Fair and Handsome' brand by an Indian manufacturer.

<sup>11</sup> They want to sing the lyrics of yesterday to the tunes of today.

But perhaps the most important trend in the field of beauty is the demand for natural cosmetics. Plant products have been used in India for centuries, but the increase in awareness and scrupulousness has strengthened the Indian consumer's interest in ecoproducts. In India, this has also meant the revival of ayurveda, the traditional system of Indian

medicine. Some Indian companies are going even further, marketing spirituality and 'Made in Bharat' signs as their competitive advantage. This trend is underlined by the broad popularity of ethnic brands, such as Patanjali and Sri Sri Tattva, founded by yogis and spiritual guides.

## INVESTING IN QUALITY OF LIFE

Increasing demand for high-quality products and everyday items is not the only vector of development in the Indian economy. The emerging middle class is paying more and more attention to its quality of life. This is especially visible in its increased readiness to invest in family health and in education for children. In a country where public services are inadequate, private clinics and schools have long ceased to be thought of as luxury categories and more as necessities.

According to the latest national survey, 56% of urban Indians and 49% of rural residents use private health facilities [81]. Poor quality of service, overcrowding and long queues are pushing people to seek help in the paid sector. The consulting company PwC estimates that the Indian healthcare market is growing by an average of 15% per year and that it will reach \$250 billion by 2020 [78]. At the same time, only 5% of Indians have medical insurance, so the vast majority of this sector is made up of so-called cash-based medicine.

As a rule, private healthcare infrastructure is focused in the big cities and designed for the middle class. Home medical care is a separate segment of the market. This can be explained on the one hand by the impossibility of receiving adequate care after an operation because of limited space in clinics, and, on the other, by the fact that well-off Indians are increasingly turning to private providers for help with caring for their elderly relatives at home. The practice of telemedicine is expanding in small towns and remote villages. Individual clinic chains, such as Apollo Hospitals and Fortis Hospitals, have gained international recognition and become a focal point for medical tourists travelling to India, especially for heart, liver and bone marrow transplants as well as cancer treatment.

In terms of the education system, the culture of private schools has existed in India since the days of the British rule. The idea of universal education was to a certain extent alien to the British people, where good schools were considered the privilege of the few. The idea of literacy as the prerogative of the upper classes reigned in India up until the 1970s, when the government decided to address the issue of access to education. But even at this stage, efforts were focused not so much on creating an education system as on physically building schools, without attracting qualified teachers or preparing curricula. Although considerable efforts and resources have been expended to improve the situation since then, Indian schools have still been unable to completely rid themselves of this complex heritage.

Private education has been a necessary alternative for the Indian people. 43% of students study in private schools, and the proportion attending these institutions continues to grow [24]. The total size of the market is \$100 billion, 52% of which comes from formal education [80]. Migration to fee-paying schools comes in tandem with economic growth that has led to a surge in demand for educated people. Parents are prepared to devote time and money to giving their children a better start in life and the opportunity to be successful in the future. Families not only pay for schooling but also university, extra classes and PhDs, which are considered to be especially important for finding a good job in India. Within the most affluent households, there is also growing demand for education which will lead to an international diploma [59]. A separate but promising area, especially for small towns, is online education. Taking into account the youth of the population, experts predict that the fastest growth in the popularity of distance learning will be in the segment of tutoring and exam preparation.



## SPLAT: A LEAP INTO THE UNKNOWN

SPLAT, the Russian manufacturer of oral care products, is not a newcomer to the international market. Over its 15 years of existence, the company has transformed itself from a small start-up into a confident, medium-sized family business, successfully competing in Russia and abroad. The company's first export sales were made in 2007 with its active arrival on the CIS markets. By 2010, it had begun to expand into Europe and Asia.

India—part of SPLAT's recent international expansion—has established itself as a tough market. The lack of necessary infrastructure and of a developed and organised retail sector are aggravated by the unique features of Indian business culture. With its first Indian partner, SPLAT ran into trouble. To organise sales in India, the importer needed a local representative (a legal entity), which would register the products with local authorities, and in whose name the deliveries would be made. The first batch of oral care products was shipped to India in October 2016, and on 8 November the Indian government announced the demonetisation programme: 500 and 1,000 rupee banknotes were removed from circulation. The news caused complete chaos in India since these banknotes accounted for almost 80% of the total cash in circulation. As a result, many payments were declined, and SPLAT's partner could not deliver on its commitments in time. However, by April 2017, the payment had still not been made, and the partner was still not responding, so the company decided to file a lawsuit in a local court. Despite the sum of money owed not being critical for the business, SPLAT management went forward on principle, and the proceedings are still in progress.

But these initial problems never stopped the SPLAT team. Today, the company is working with a new Indian partner as is exploring potential niches on the Indian market. In particular, it sees great potential in the emerging children's segment, where there is almost no competition. One of its first successes in this area was the supply of its products to a specialised children's retail centre and online shop called First Cry, which was negotiating with SPLAT's new Indian partner. Besides this, SPLAT is promoting its products through dental clinics—a strategy that the company used while establishing itself in Russia. SPLAT products are also available online at Amazon and FlipKart, and there are plans to supply them to two large holding companies, Reliance and Future Group, under the brand name BIOMED. Nevertheless, distribution remains a major stumbling block for SPLAT in India. Whereas in Russia, two-thirds of the company's turnover comes from federal chains, in India most sales in the FMCG sector still come from kiosks (kiranans).

The biggest difficulty for SPLAT is that the company is a pioneer in its category. The Indian oral care market is now represented by local and several foreign companies. They all manufacture their toothpaste in India and aim for the lower price category. Unlike other markets where SPLAT operates, in India, there are no successful importers whose experiences can be taken into account. So, the company has to independently pave the way to the Indian consumer, exerting extra efforts to not only open market access channels but to also train potential customers. At the end of the day, as Timothy G Odenwald, SPLAT's Director of Development in ASEAN Countries, says, 'whoever is the first to solve the Indian riddle will hit the jackpot'.

Based on interviews with company representatives.

## ON THE PATH TOWARD ORGANISED RETAIL

As disposable income increases, Indian consumers are beginning to pay attention not only to the quality of the items and products they purchase, but to the comfort and cleanliness of the place where they do that. It is not only the brand which matters but also the shop, which is becoming part of the lifestyle. As Geoff Hiscock notes in his book, *India's Store Wars*<sup>12</sup>, 'thrift is no longer in vogue, consumption is coming to the fore' [35].

As a result, modern retail is gradually developing. Instead of stuffy, crowded street shopping malls come new retail formats—supermarkets, hypermarkets and shopping centres. In the ten years from 2006, the number of supermarkets has increased dramatically: from 500 to 8,500. India's retail market is expected to grow to \$1.1 trillion by 2020 in comparison with \$672 billion in 2017 [67]. So, in 2017, overtaking China, India took first place in the A.T.Kearney consulting company's Global Retail Development Index (GRDI) rankings [1]. No wonder the famous Indian businessman, Sunil Mittal, calls India 'the last Shangri-La of retail'<sup>13</sup>[35].

Today, Indian retail is dominated by a number of large Indian groups: Reliance, Tata, Birla, Bharti and Future Group. Foreign chains include Walmart, Metro Cash & Carry and Tesco. In fierce competition with traditional stores, food hypermarkets, which make up about 25% of the organised retail market, are attracting more and more customers thanks to loyalty programmes and discounts for repeated visits.

In addition to super and hypermarkets, shopping centres are becoming increasingly popular among India's urban middle class. For Indians, the shopping centre is not just a '*shopping destination*', it is also a place to enjoy spending time with your family or meeting up with friends at the *weekend destination* [42]. In his book, *Super Marketwala: Secrets to Winning Consumer India*<sup>14</sup>, Damodar Mall succinctly labels

this phenomenon 'shoptainment', from the words '*shopping*' and '*entertainment*' [46]. Shopping centres attract visitors with their cool, pleasant atmosphere and entertainment for every taste. What's more, themed and specialised shopping centres are becoming fashionable, presenting brands of specific categories. Examples include the Wedding Souk shopping centre in Delhi, which specialises in wedding goods and jewellery, the Creativity shopping centre in Pune with furniture and home goods and DLF Emporio in Delhi, which offers luxury goods.

The number of shopping centres in India is growing every year. In 2001, there were only three, by 2007 this number had grown to 343, and as of 2017 India had more than 600 operational shopping centres [42]. Most of them are concentrated in the metropolises. At the same time, due to the high cost of land in large cities, the gradual construction of shopping centres is being observed in level II cities.

The rising popularity of shopping centres is largely due to consumer behaviour, specifically that of women. Constrained in their choice by tradition and the opinions of others, women, shopping in neighbourhood stores under the watchful eye of the local grocer (Damodar Mall calls him the '*shopkeeper-in-law*', emphasising some degree of closeness or even kinship with customers), are ashamed of trying something new. In the atmosphere of the shopping centres, they become more relaxed, free and curious, and thanks to anonymity they can experiment without having to explain their choice. In this way, the desire of women to visit modern shopping centres is gradually drawing the whole of Indian society toward organised retail.

<sup>12</sup> India's Store Wars: Retail Revolution and the Battle for the Next 500 Million Shoppers (Geoff Hiscock).

<sup>13</sup> NB: Shangri-La – 'Heaven on Earth'.

<sup>14</sup> Super Marketwala: Secrets to Winning Consumer India (Damodar Mall).

## BIG BAZAAR: THE STRATEGY OF ORGANISED CHAOS

Until recently, the shopping experience of most Indian consumers was inextricably tied to the mercy of the Choty, an assistant at the neighbourhood grocery store. Since only the Choty had access to the shelves of goods, he literally stood between the consumer and their desires, personally deciding whether or not to let the customer try something new. The retail revolution broke down barriers, moving trade off the streets and into air-conditioned buildings, turning shopping into entertainment and allowing Indian consumers to decide for themselves what to try and buy. For many Indians, shopping is their main form of entertainment, part of a special ritual of when the family goes out. Nevertheless, a significant number of people are still accustomed to doing their shopping in bazaars.

Major national retailers, paying tribute to ingrained consumer habits, seek to create an attractive offer for customers, one which combines the advantages of convenient modern shops with traditional retail. A striking example of organised retail in India that has been adapted to local preferences is the Indian Future Group corporation, which owns a network of hypermarkets under the brand name Big Bazaar.

Big Bazaar hypermarkets are designed in a way that lets the consumer experience the same sensations as at the bazaar: traditional shop clusters and the hustle and bustle. This approach has been called the 'strategy of organised chaos', and the concept of the bazaar was reflected in the name of the network. This idea proved very successful with consumers: the number of visits to Big Bazaar was twice that of visits to competing hypermarkets, which are clean, convenient and organised in an international format.

By its example, the company showed that players in the Indian retail segment not only need to know what format to use to organise their shop, they must also understand their clients' needs and give them an experience they can really enjoy.

Based on: "Consumer India: Inside the Indian Mind and Wallet" by D.Sinha [62]

## Young specialists

One of the fastest growing consumer groups in India is working youth. As a rule, these are highly qualified specialists with a scientific or technical degree and are graduates of higher education institutions, working in entry-level positions. Goldman Sachs estimates that as of 2015 their average annual income exceeded \$5,000, and that there are around 32 million people in this group [30].

Due to the youth of the Indian population, this segment is expected to grow at a rapid rate. Today, most young specialists work in the information service sector and in business process outsourcing. In the future, however, new career opportunities are forecast to appear in retail, logistics and services. It is expected

that with time this group will be joined by 'blue collar' workers, whose standard of living will improve as a result of growth in the production sector. In any case, members of this group are being drawn into the market for the first time, which means that their opportunities can only expand.

It is difficult to assign young specialists to a specific generation in the western sense of this word. Born at the turn of the new millennium, they have a combination of the characteristics of generations Y and Z. Dheeraj Sinha more accurately calls them: 'the generation without conformity' [62]. Driven, and open to all things new, they live by the motto 'work hard, play hard'. Members of this generation value diversity and are always moving, which

partly explains the high turnover in the industries they work in. For example, in the business process outsourcing sector, where the average employee age is 24–25, every year up to 37% of staff are replaced [72].

Despite an ostensible nonchalance, young

## FAST LIFE

Members of India's younger generation are similar to their western counterparts in many ways. Time magazine called them the 'ME ME ME generation' [20, 82]. All of their decisions regarding work, relationships or consumer behaviour are based on their personal interests. Liberated from their family obligations, they want to enjoy life, so the main limitations they face in their daily lives are money and time.

The spread of small families and increasing employment among women, combined with limited free time leads to increased demand for convenient food formats, both fast and high-quality. This is stimulating exponential growth in categories such as ready-to-cook and ready-to-eat food products. In a few years, the Indian market for ready-made products has more than tripled in size: from \$35 million in 2010 to over \$120 million in 2015 [5]. This primarily applies to products like frozen vegetables and snacks.

What's more, young Indians do not need a special reason to go to a restaurant. They love to talk, and cafes and restaurants are gradually becoming centres for discussion. Both local and foreign quick service restaurants (QSR) are especially popular and, together with regular restaurants, they make up around 73% of the catering market in India today. The particular rise of the QSR format happened around 20 years ago. Since then, most global brands are represented on the Indian market, either through their own chains or through franchises or a mixed model [19]. It is important to note that many chains tend to adapt their menu to meet local demand. For example, around 40% of India's population are vegetarian [30], which is reflected in the 'Indianised' menus of McDonald's and KFC.

Cosmopolitan Indian youth is increasingly ready to experiment and try new dishes, like middle-

specialists in India are some of the most intense and hard-working people in the world [5]. At the same time, urban youth often earn more than their parents in small towns and villages. Decent earnings give young people a sense of receiving a well-earned reward, which further bolsters their consumer interest.

eastern or Latin American cuisine 'with a local sauce'. Being the same age as their clients, most restaurant and food delivery company owners aim to diversify their menus [51]. In recent years, noodles have become especially popular, challenging rice as the main staple of the young population's diet. A similar trend occurred with coffee culture (as opposed to the traditional tea), which led to the emergence of coffee chains such as Barista, Costa, Cafe Coffee Day and the recent addition to the market, Starbucks.

The desire for speed and freedom of movement combined with the poorly developed public transport network are driving purchases of cheap modes of transport. Characteristically, young Indians prefer scooters: in 2015, 16 million two-wheel scooters were sold (for comparison: 25 million cars were sold) [30].

This hunger for new experiences is also reflected in young Indians' attitudes toward clothing: they are attracted to greater variety and changing images. Where demand was previously met by grey suits for work or ceremonial sherwanis (a long jacket with a standing collar) and saris for going out, today, new western looks are being added to wardrobes. This trend can be seen in the increasing number of fast-fashion retailers, who offer affordable and fashionable clothing. The 'indo-western' style, which combined ethnic motifs with western elements, has been especially popular. The most prominent Indian companies operating in this category include Global Desi, Lakshita, W and Fabindia. Among western brands, Zara and H&M are very successful. After the government allowed 100% investment in single-brand boutiques, more and more players began to enter the market, such as Vero Moda, Gap, Forever 21, the German sportswear manufacturers Puma and Adidas and the Japanese brand UNIQLO [41].

## ALWAYS CONNECTED

It is impossible to imagine the young generation of Indians without digital technologies, mobile internet and modern gadgets. The volume of electronic products in India's retail market is growing rapidly. In terms of value, the country accounts for 10% of global smartphone sales. The Indian mobile market is already bigger than that of the United States and lags behind only China's [90].

Over the last five years, mobile phones and tablets have become firmly embedded in Indian daily life, whether it be for communication, navigating, job hunting, ordering food online or booking tickets. Nowadays, around 30 million phone and laptop users spend between eight and ten hours on the internet every day.

In addition to traditional western websites and social networks, such as Facebook and WhatsApp, Indians use local mobile apps and niche social communities, organised based on interests, language or nationality.

What's more, e-commerce has become widespread in recent years. Young Indian consumers value the opportunity to search for good deals and feel proud when they make the right choice. Since 2015, the number of online customers has increased sevenfold, to 80–90

million people. According to forecasts, the growth of online retail will be 30% per year and will reach \$48 billion by 2020 [1]. As internet users get older and more experienced (by 2020 around 65% of internet users will be over 25), the number of online transactions will rise, as disposable income increases with age [5].

Smartphones are more widespread than computers, so mobile commerce will be the dominant force in the growth of e-commerce. Eight out of ten e-commerce transactions in cities are made on a mobile phone. Consumers are attracted by the possibility of shopping on the go, as well as additional discounts offered when making a transaction through an app. A major consequence of this process will be an increase in impulse purchases made while browsing an app during one's free time [5].

The huge potential of India's online retail market explains the enormous investment in the industry. In April 2017, the Indian online retailer FlipKart made \$1.4 billion, and in June 2017 the American giant Amazon announced plans to invest \$3 billion [84]. In May 2018, the American corporation Walmart, the largest retailer in the world, acquired a 77% stake in FlipKart [43], making the Indian online retail market into a veritable battlefield.

FIGURE 6: OVERVIEW OF INDIA'S B2C E-COMMERCE MARKET PLAYERS

	Amazon India	Flipkart	Snapdeal	Shopclues	Paytm
Year of launch/foundation	2013	2007	2010	2011	2010
Number of sellers	50,000+	30,000+	200,000+	300,000+	50,000+
Number of commodity items	30 million	30 million	15 million	35 million	NA
Market share (GMV)	~15%	~44%	~32%	< 10%	< 10%

GMV is the gross revenue of all sellers on the site.

Source: United Nations Industrial Development Organisation (2017). National report on e-commerce development in India [84]

## AMERICAN WARS ON THE INDIAN MARKET

Amazon, the online sales company, and the wholesale and retail giant Walmart are the largest retailers in their field and long-time competitors for the American market. Today, both players have set their sights on India. Their significant investments in the Indian market are not random; the companies are trying to avoid a repeat of the situation in China, where they found themselves behind local firms.

Amazon's history in India began in 2013, and today the company views this market as the fastest growing in terms of sales. India has exceeded all the expectations of Amazon's management: within 12 months of launch, sales in the country reached the \$1 billion mark — the fastest billion ever for Amazon. On this subject, the head of the company, Jeff Bezos, said, 'We've never seen anything like it'. In 2017, Bezos arrived in India for a visit. Outfitted in traditional marital dress and standing on a truck like a hero in a Bollywood film and posing for reporters, he handed the Indian unit a cheque for \$2 billion. Since its inception, Amazon has invested around \$5 billion in India.

Amazon's commitment to the Indian market was the focus of local and international business communities for a long time, until in May 2018 Walmart invested an unprecedented sum — \$16 million — and bought up around 80% of the assets of FlipKart, the leading Indian online retailer. This deal was the largest in the history of e-commerce.

Walmart originally came to India in 2007 and formed a joint enterprise with local player, Bharti Enterprises. Six years later, it ceased its operations, and Walmart registered its own subsidiary. Today, Walmart India owns and manages 21 Cash & Carry format shops under the brand name Best Price Modern Wholesale Stores in nine states across the country. Recognising the potential of Indian e-commerce, Walmart took an important step toward online trading by acquiring FlipKart's assets. This decision was thought out both from the perspective of development in the local market and from the point of view of building influence in the field of e-commerce, as Walmart is moving in this direction in the US market. Ironically, FlipKart itself was founded in 2007 by two former software developers from Amazon. Binny Bansal, a computer engineer from northern India, together with his childhood friend Sachin Bansal (unrelated, despite the same surname) started selling books over the internet and grew into a business with a 44% share of Indian online retail.

Despite the obvious growth and enormous potential, Indian e-commerce is far from being a simple battlefield for the two American giants. In addition to restrictions stemming from the supply chain and logistics, this is a considerably regulated market. As such, 100% foreign direct investment (FDI) under the automatic approval route is permitted only in the B2B e-commerce segment. Local legislation does not allow foreign multi-brand retail companies to stock and sell their own goods to consumers over the internet (inventory-based model). In March 2017, the Indian government allowed 100% FDI in online retail trade and services under a 'marketplace model', whereby online shops effectively act as an intermediary between the buyer and seller.

Both Amazon and Walmart are highly aware that emerging markets such as India need to be looked at through the lens of their potential in the coming decades and not as short-term ups or downs. The basis for success on the Indian market will undoubtedly be long-term vision, flexibility and perseverance. So far, all the indications are that the battle for the Indian consumer is just beginning.

Based on material from the websites of Forbes, Bloomberg, Financial Times and PwC [28, 7, 26, 54].

## The well-off rural population

Owning land has always been considered a sign of wealth and status in India. Historically, landowners represented the higher castes; however, since Indian independence, the authorities have made great efforts to provide the rural population with equal rights to land. The impetus for the creation of a class of wealthy farmers came from a government programme to intensify cereal crop production launched in the early 1960s. Known as the 'Green Revolution', it was designed to address food shortages. The improvement of agricultural technology, the introduction of modern farming methods and the use of new varieties led to increased yields and higher incomes. A similar effect was achieved by the next government initiative, the so-called 'White Revolution', which in the 1970s made India the largest producer of milk in the world.

Today, the segment of well-off rural inhabitants includes landowners, rich farmers, educated agricultural industrialists and civil servants. Taken together, they form a market of 120 million people with an annual income of \$2,000 or more per

family member [30]. Despite its rural affiliation, this market extends beyond the village as residents constantly travel to nearby towns for shopping. As a rule, wealthy villagers are represented by the older generation (over 40). They have adult children who either continue their father's work or leave to get a good education in the metropolises or abroad.

Well-off villagers are the keepers of tradition. They value stability, conservatism and simplicity. In the words of Dheeraj Sinha, for them, 'essence is more important than style' [62]. That is why they buy types of product and not brands. So, when choosing a new product, such as crisps, they would rather be satisfied by a non-brand Indian counterpart than spend more and try Lay's crisps. The main reference point for villagers is the community in which they live. Opinions and advice from neighbours and relatives are more meaningful to them than advertising on the television. It is unsurprising then that network marketing and companies like Avon and Amway have achieved great success in the local market.

## THE GREAT WEDDING

Life for India's rural residents is centred around the family, so weddings are extremely important and solemn events. The ability to make a successful couple is an enviable skill, and the wedding itself is more like a vibrant festival with numerous events, processions and tens, hundreds or even thousands of guests. Such a celebration can last several days [2].

Indians spend considerable amounts of money on weddings, which determines the colossal size of this industry. On average, one-fifth of all the money accumulated by an Indian person in their entire life is spent on matchmaking and the wedding of their child [73]. According to the same data, the Indian wedding market, which grows by about 20% each year, is valued at \$50 billion and is the largest in the world after America's, which is about \$70 billion. It is projected that in the period from 2017 to 2021 around 60.5 million weddings

will be held in the country [27].

Since the tradition of marriage and matchmaking are widespread in India, this segment of the market plays just as important a role as the wedding events themselves. Wedding fairs were once very popular in India, similar in many ways to job fairs, where parents would give the organisers a short profile of the groom or bride, and they then meet in person. Today, with the internet having penetrated even remote rural areas, many parents actively use special websites for matchmaking and selecting candidates for their children.

The wedding organisation market is mostly dominated by Indian companies; however, international players are gradually coming to India. A striking example is the Spanish company ZankYou, which plans weddings: it draws up a list

of gifts, creates a wedding website, makes the invitations, forms a guest list, prepares a reception plan, provides options for the honeymoon and even provides a catalogue of wedding suppliers (photographers, music groups, dancers, astrologists and mehndi artists) [73].

Traditionally, one of the most important aspects of a wedding is gold. As Sharad Awasthi accurately notes in his book *We Indians: God-Fearing, Homely and Corrupt*<sup>15</sup>, 'no gold, no wedding'<sup>16</sup>[2]. The passion for gold and jewellery is deeply ingrained in the Indian mentality. The growth of incomes in the villages has opened up new possibilities for developing this segment of the market. It is estimated that 70% of gold sales in India are made on the unorganised rural market [77].

It is worth noting that in India jewellery, including diamonds, is bought throughout the whole year—during holidays and the wedding season—as birthday presents or for other occasions. The rural

rich, for whom price is no object, prefer expensive jewellery with large, high-quality stones. To buy them, they go to big cities and find well-known jewellers with a reliable reputation. At the same time, in recent years, demand has grown in India for everyday diamond jewellery. Young families, unmarried women and young people who buy jewellery on impulse are prepared to make purchases in shops and online [61].

Besides weddings, another important reason to buy gold jewellery and precious stones is for India's many holidays: Diwali, Holi, Rakhi, Vashi, Navaratri and others. Indian consumers are fatalistic and believe deeply in traditions and rituals. It is no surprise that there are special days in the calendar which are favourable for buying gold, for example, *Akshaya Trithiya or Dhanteras*, the first day of the Diwali festival. On these days, the whole nation rushes to the shops, as buying something expensive will guarantee prosperity for the family.

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## THE HOME

Due to the climate and unique cultural aspects, typical attitudes toward tidying and cleanliness in India differ from western stereotypes. Despite the rubbish tips and dirt on the streets and in public spaces, homes in India are kept relatively tidy. At the same time, even in middle-income families, the housework is usually carried out by servants and maids. Having a maid is not a sign of luxury but rather an echo of caste division.

It comes as no surprise that in India, especially in rural areas, the idea of DIY is so underdeveloped. There are DIY shops in the Indian market; however, they are mainly used by tradesmen (carpenters, plumbers etc.).

Nevertheless, with the growth of the housing market and improving living conditions, demand for product categories for construction and repairs is rising. As Dheeraj Sinha writes in his book, in the past, Indians paid little attention to ornamental objects and decorating their homes. Many houses in rural areas were left unplastered

and unpainted. The most important thing was to have a house. Far less attention was paid to how good it looked. Inner beauty was more important than outer beauty. Today, however, the situation has changed drastically. Landscaped gardens, marble floors and modern exteriors are very popular. The country is experiencing a boom in the finishing materials industry (such as tiles, paints and decorative cladding panels for exterior decoration), which is certainly proof of a change in thinking [62].

This shift is also noticeable in connection with durable goods. Whereas for young people buying large equipment is an integral part of life, for the older generation it is primarily a demonstration of status.

Due to the number of households, India is an unusually attractive market for household appliances. A serious problem in this regard is that the country often has power outages, and only half of the houses have an external water supply,

Nevertheless, the growth of the middle class and the improvement of living conditions are having a positive impact on demand in this sector.

The potential for increased demand is also determined by the fact that only around 50% of the rural population has a television, 8% has a fridge and approximately 1% has a washing machine [25]. In this regard, the growth of this industry in rural areas is around 25% per year compared to 7–10% in the cities [9]. A state electrification programme is also helping to increase demand. India's consumer durables market is estimated to reach \$20.6 billion by 2020, and by 2025 India will place fifth in the world in this market segment [18]. It is worth noting that locally-produced goods occupy a considerable share of the market. With increasing demand, the localisation of production, which is on average 30%–40%, is rising. This is especially noticeable in the category of fridges (75%), washing machines (65%) and air conditioners (40%). At the same time, many television manufacturers face a shortage of domestic component suppliers and are unhappy with the poor quality of their products. The leading Indian companies include Blue Star, Godrej Group, Onida Electronics, Videocon Industries Limited and Bajaj Electricals [47].

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## KIRANA COUNTRY

The Indian village, which lives by tradition and community values, continues to be exceptionally conservative when it comes to shopping. One of the central places for trading is the bazaar where you can touch, smell and bargain. Bazaars have always played a special role in trade and social relations in India. Outside the major cities, most rural trade is centred on the weekly haat (*haat* is a mobile market for food and other necessities, similar to a weekend market) which is visited by the residents of 10–20 surrounding villages. Another, even larger, form of trading is a *mela*, a market which can last from one to 45 days, where a much wider range of products is on display, including consumer durables like televisions. Melas usually attract customers from both urban areas and remote villages [35].

Among other things, India is becoming an attractive production hub for international companies. The launch of the *Make in India* initiative has sparked a new wave of international investment. Many international companies have announced their investment plans and their upcoming production localisation. For example, the Japanese corporation Panasonic has invested in a factory which produces fridges in Jhajjar, Haryana state. The South Korean company Samsung, which in 1996 opened the first plant producing smartphones, fridges and flat-screen televisions in India (in the city of Noida, Uttar Pradesh state), announced plans for expansion. The American manufacturer Whirlpool and the Chinese corporation Haier are also planning to increase production in India. After a hiatus of almost 11 years, the French company Thomson has announced its return to the Indian market and investments in production. The South Korean company LG Electronics India, which has manufacturing units in Noida and Pune, is expecting India to become one of its global production centres to serve the markets of South Asia, Africa and the Middle East.

<sup>15</sup> *We Indians: God-Fearing, Homely and Corrupt* (Sharad Awasthi).

<sup>16</sup> Translated from English: No gold, no wedding.



## LIGHTING TECHNOLOGIES: RUSSIAN LIGHT ON THE INDIAN MARKET

'India today is like Russia in the early 2000s: the country is experiencing a boom in commercial construction and industrial real estate'. This is how Vitaliy Bogdanov, Vice President of Strategy and Development at Lighting Technologies, describes the dynamics of the local industry. Indeed, after

three years in the Indian market, the company has achieved impressive results. After launching its own production site in Bangalore in 2015, the Russian manufacturer has managed to establish itself in the Indian market for modern lighting solutions, with particular success in commercial, road and sports lighting. As such, by the end of 2017, India already accounted for 21% of the company's total sales.

Lighting Technologies took an interest in the Indian market almost immediately after it was founded in 1998 by two Russian entrepreneurs. Soon after its creation, two Indian co-founders joined company's management, who were invited to supervise production. Yet, for years, entering the Indian market seemed premature. The situation changed in the 2010s when the company's management began to believe that this dream could be realised. The road to success in the Indian market turned out to be a difficult one. Technical specifications and client preferences are different from those in Russia, and power grids often experience voltage swings, so the company was forced to develop a range of products for India effectively from scratch. Localisation of design and the development of lights and electronic components was an indispensable factor in this process. In just three years, the Indian division has brought to market 30 product families and more than 50 types of power supply and control systems.

Besides this, the company has had to build a system of direct project sales since in India, unlike in Russia, there are no large national distributors, and each state has its own specific features. On the other hand, perhaps it is through its flexibility and direct contact with its clients that Lighting Technologies has succeeded in a new market and can take pride in its partnership with the leading local and international companies that are among its clients in India.

Already, production in Bangalore is at almost 100% of capacity. The company is planning to construct a new plant, at least four times the size of the current one. Management of Lighting Technologies firmly believes that investing in India is the right choice.

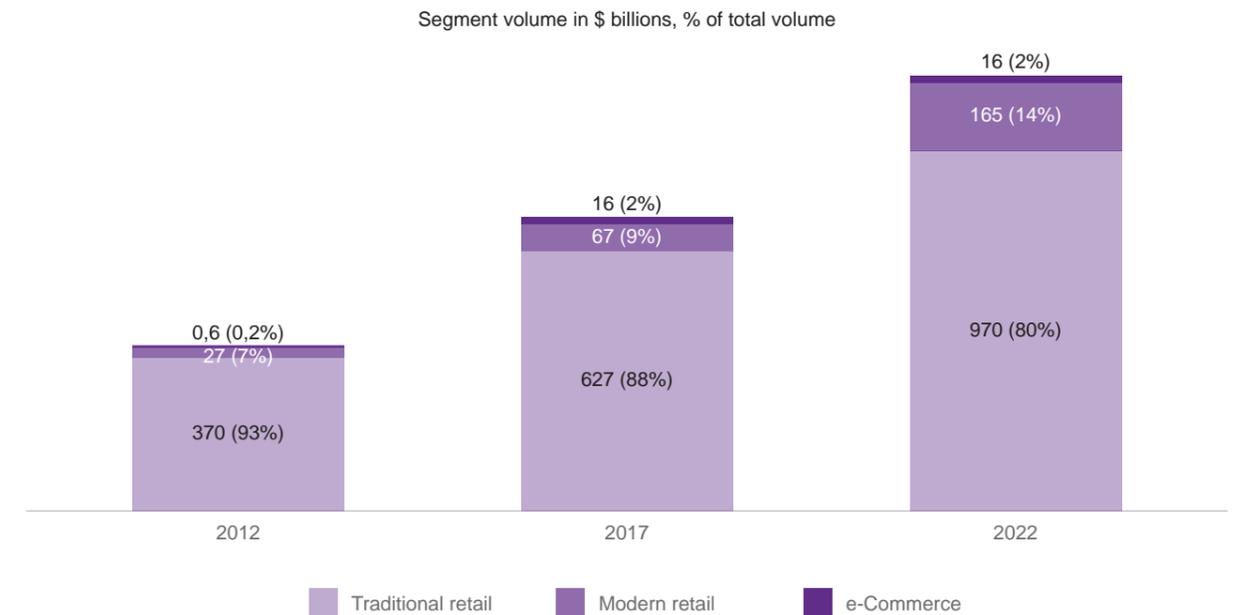
The next step in developing the lighting market is controllable lighting and Smart City and Industry 4.0 products. Lighting Technologies has ready-made solutions for this and is already promoting them on the Indian market. These are systems of the future, which is coming very soon.

Based on interviews with company representatives

As family businesses, tightly linked with a particular community, kiranas are well aware of local demand and consumer habits and, as a rule, offer a wide range of customer-oriented services, such as long working hours (up to 16 hours a day) and free home delivery. Personal relations are a critical part of how kiranas work: thanks to them, shop owners can offer credit to known customers.

Not wanting to give ground under competitive pressure from large retail shopping centres and online retailers, kirana shops are gradually changing. For example, because their range is limited by size of their shops, kiranas, in many cases, choose a narrow specialisation and group themselves into clusters to offer local consumers a variety of goods to match what the supermarkets have to offer.

FIGURE 7: RETAIL IN INDIA



Source: Brand Experts (2018). India's Fashion & Retail Sector: An Overview [8]

What's more, there are a number of technological firms on the market, such as ShopKirana, SnapBizz or Storeking, which offer IT solutions to help kiranas interact better with their clients. New technologies make it possible to issue individual invoices and send SMS alerts about promotions, holiday sales or home delivery service, which is very popular among local consumers and can be ordered through mobile apps [52].

Kiranas are also becoming a vital link in the national distribution chain. Large retailers, for example Reliance and Future Group, enter into franchising deals with them and use them as outlets in remote villages. Amazon India, under its I Have Space programme, is working in partnership with kiranas. For a small commission, they perform the function of receiving and delivering goods.

## Those in need

The poor sections of the population are still the most numerous and the most difficult consumer group to serve in India. The majority of them, around 240 million people [30], are the rural poor: small entrepreneurs, agricultural workers, artisans and farmers. In the cities, the needy include unqualified and semi-qualified blue-collar workers, with an income level of less than five dollars a day, often migrants from distant villages. They number about 100 million people [30], and this group is constantly growing. Alongside employment in construction and production, former villagers work in offices and in the homes of richer Indians as repair workers, cleaners, maids and drivers.

Often without a regular income, these migrants are forced to take shelter in urban slums. According to the last census, in 2011, there were more than 65.5 million Indians living in these conditions [89]. The slums themselves vary drastically, from cardboard huts hastily thrown together on the city streets to whole districts of chaotically constructed dwellings where poor people live and work.

The category of those in need has long been ignored as a separate market. It was first discussed in the early 2000s, after the publication of the acclaimed book *The Fortune at the Bottom of the*

Pyramid by Coimbatore Prahalad and Stuart Hart. The authors argue that the enormous combined income of the poor population represents huge consumer potential [53]. Since then, global corporations have begun to actively work with the segment of those in need. Today, enthusiasm about the opportunities at the bottom of the pyramid has declined a little, but many companies have still found success in this sphere. The main key to success is a fundamentally new approach to manufacturing and delivering products and changing consumer behaviour by informing and educating [32].

Today, the market at the bottom of the pyramid does not only include necessities. The urban

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## 'MICRO-APPROACHES'

This segment of those in need can be characterised as a large market of small consumers. Low solvency does not mean a lack of demand, rather there is demand for unconventional goods and services. There is a reason why Rama Bijapurkar, one of the most respected experts on India's consumer economy, argues that today Indians are more optimistic than ever before; however, few companies know how to serve them [6].

One successful approach has been the practice of selling packaged single-use goods. Both Indian and international companies are successfully using this 'single-use packet' strategy, whether it be shampoo, washing powder, medicine, snacks or instant noodles. In the absence of fridges and storage places, single-use packets also reduce the risk of products spoiling. Those in need, living in villages, are particularly conservative and prefer traditional Indian brands. To draw their attention to a new product category, western firms often use a combination of small sizes and healthy properties. For example, in response to the concerns of poor Indians who fear losing their jobs due to health problems, PepsiCo brought to market 4-cent snacks with high iron content and a glucose drink for 10 cents [13].

slums are increasingly being thought of in the context of demand for branded goods, from soap to pressure cookers. Hoping to rid themselves of the image of a former villager or, as they say in India, '*a son of the soil*', newly-arrived migrants are prepared to save on food and spend on 'status items'. In fact, the penetration levels of mobile phones and TVs in India's slums exceed that of the rest of India. [79]. The social experience gained in wealthy homes and offices is also driving consumer demand among the urban poor who, among other things, find themselves under the powerful influence of television advertising and are more inclined to make impulse purchases than village residents with comparable incomes.

Working at the 'micro-level' also helps companies overcome the challenges of rural distribution, or what is commonly referred to as the 'last mile'. A striking example is the Shakti project launched by Unilever, which involved making rural women the main agents for selling in the villages. Individual female entrepreneurs are given the official status of Shakti Ammas, and the company organises training for them and provides marketing assistance. In this way, the project not only ensures an increase in consumption in the villages, it also drives the development of entrepreneurship and income growth. As of 2010, more than 72,000 micro-entrepreneurs were involved in the Shakti project [34].

It is also no surprise that in India, where only 70% of the population has a bank account, microfinance has become popular. With limited access to traditional banking services, poor people in India, especially in rural areas, use microloans to finance their entrepreneurial activities. The main unique characteristic of the Indian market is the existence of mutual aid groups, where people (usually women) unite to take out a collective loan from a microfinance organisation. Rates are regulated by legislation and may not exceed 30%. The rate of loan repayment among women is 99.6% [15].

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## JUGAAD-STYLE INNOVATIONS

Having needs and limited resources forces people to improvise and show ingenuity. This is especially evident in India. Poverty and a lack of social security have made being savvy a national trait in India. Using a washing machine to churn butter or making a fridge out of clay are just two of the many examples of the Indian entrepreneurial spirit. Indians have a special word for this—'jugaad', which loosely translates from Hindi as 'a clever solution that arose from resourcefulness and ingenuity' [57].

Despite the fact that jugaad was born in India's villages, today local and international companies are also guided by this principle since the ability to make affordable and simple solutions has become vital for working in emerging markets. The jugaad approach, also known as 'money-saving innovations', means reducing the complexity of goods and their production cost. As a rule, these innovations cover more mass-produced technological products and are implemented by eliminating non-essential functions. In these cases, a product which cannot be used due to a fault loses its appeal and reputation.

In the segment focused on the poor population, there is a particularly large number of solutions based on 'money-saving innovations'. The Indian Godrej Group has developed the ChotuKool fridge, which has only 20 components, is devoid of secondary functions and equipped with a built-in battery. These changes make it affordable for the masses, and useable during power outages.

The scarcity and high cost of electricity have also led to the emergence of a large segment of alternative energy solutions in India. SELCO India has been offering solar panels, water heaters and light sources to low-income households since 1995. By putting serious effort into popularising the benefits of solar energy among community residents, the company has, among other things, revolutionised the help-to-buy scheme by taking on collective applications and offering assistance in obtaining a bank loan. In essence, SELCO offers solar energy as a service, rather than a product. Western multinational companies are also experimenting with innovative solutions to meet local demand. The smokeless oven from Philips and Coca-Cola's water cooler which works on a solar battery are examples of jugaad innovations.

But the greatest effect is still seen still coming not so much from product innovations as from unique business solutions. Perhaps this explains the failure of the super-cheap Nano car from the Indian manufacturer, Tata Motors. At the time of its launch in 2008, the car, which cost \$2,600, seemed to be a breakthrough innovation. However, Indians did not take to the 'people's' car. For the poorest sections of the population, the Tata Nano proved too expensive as a replacement for the scooter, while more financially stable citizens preferred more fuel-efficient models from Suzuki or Hyundai [93].

# Prospects

The choice between market orientation or opportunity orientation is a frequent dilemma faced by companies in the process of selecting countries for international expansion. In the first case, they react to pre-existing markets with clear rules and ready-made consumers, whereas in the second case they look toward the future, placing a bet on potential. Both approaches have their downsides. An established market usually means high levels of competition and fewer unfilled niches. In this context, choosing a market with potential offers the advantage of being a 'pioneer', allowing companies to earn customer loyalty and build relationships with stakeholders. As a result, when the market develops, the company will be among those who will be able to take full

advantage. The main issue regarding countries in this category is when to take a step in their direction, especially given the high degree of uncertainty and risk that exists at the initial stage. Today, India is by all indications a market with potential, and despite the fact that few dare enter it, it is vital to have some understanding of it.

India's appeal is undeniable: large, young and growing, it has a dynamic consumer market. At the same time, it faces both new challenges and problems stemming from the past. On the one hand, the large population is an undeniable resource, while, on the other hand, it raises many social and economic issues, such as ensuring

equal access to healthcare and education, overcoming poverty and inequality and improving living conditions and the environment. The issues of women's security, which are regularly focused on in the media, and the problems of women's full integration into the economy and labour market remain unresolved. The diversity and heterogeneity of Indian society unfortunately means that ethnic and religious conflicts erupt both domestically and with neighbouring countries. For India's youth (the main source of market potential) to enjoy the demographic dividend it must be provided with employment.

Nevertheless, India has a chance to turn its shortcomings into achievements. Economic growth is a key stimulus which affects various sections of the population. It is this understanding that has prompted the government to launch major reforms and programmes, from the initiative to clean up the river Ganges to opening India up to international investment and turning the country into a major manufacturing hub.

In parallel with top-down government initiatives, India's economic growth is driven by the newly emerging Indian consumer. We are already seeing a major transformation that encompasses a variety of aspects of life in Indian society and directly affects the values, desires and consumer behaviour of the Indian people. The processes of urbanisation, the growing middle class, the development of the digital environment and changes in lifestyle and mood are affecting what Indian consumers look like and how they live today.

On top of that, India's consumer market is highly diversified, has many languages, traditions, rules and norms and, therefore, can be segmented in different ways. One of the most obvious and attractive categories which companies traditionally focus on is the urban middle class.

Indeed, this segment is the most solvent and accessible. It is constantly expanding its needs and is increasingly paying attention to its quality of life. However, the segment of Indian youth, the so-called 'young professionals', has the greatest potential for growth. Free-spirited and having grown up in conditions nurturing success, they are hungry for new purchases and experiences. We should not lose sight of another significant, although highly diversified segment—wealthy villagers, who in recent years have also shown an increase in income. Still the custodians of Indian traditions and values, this group acts as the main consumer of products such as gold, jewellery and household goods. Along with young people, rural consumers are an increasingly visible link in the e-commerce industry. For now, the most difficult group to work with is the huge poor population. However, as companies' experience has shown, innovative solutions are helping them to achieve success even in this difficult market.

Modern high technologies combined with Indian *jugaad-style* resourcefulness and entrepreneurial spirit are helping to overcome the difficulties of working on the Indian market, especially with regard to the backwardness of infrastructure. India is a country which is full of life and energy, and it has its own special development path. Having skipped the industrialisation stage, it moved straight to the knowledge economy. The success of local companies in high-tech industries is evidence of the country's huge potential. It also provides a reason to hope for India's transformation into one of the world's leading economic centres and consumer markets. The speed of its transition from potential to real market will depend on the speed and effectiveness of reforms to improve the environment for international business. Four years of action show that the government is committed to working in this area. However, only time will tell if India will remain a country of eternal potential or whether it will be able to take advantage of it.



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**Alexey KALININ**  
Research Director  
Alexey\_Kalinin@skolkovo.ru



**Bulat NUREEV**  
Managing Director  
Bulat\_Nureev@skolkovo.ru

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**Dr. Lydia KULIK**  
Head of India Studies  
india@skolkovo.ru



**Gaukhar NURGALIEVA**  
Head of Eurasian Studies  
eurasia@skolkovo.ru



**Natalia ZAITSEVA**  
Head of Sustainability  
sustainability@skolkovo.ru



**Vladimir KOROVKIN**  
Head of Digital and  
Innovations  
digital@skolkovo.ru



**Oleg REMYGA**  
Head of China Studies  
china@skolkovo.ru



**Ekaterina MOLCHANOVA**  
Head of Global Strategies  
globalstrategy@skolkovo.ru

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**SKOLKOVO Institute for Emerging Market Studies (SKOLKOVO IEMS)**

Moscow School of Management SKOLKOVO  
100 Novaya Str, Skolkovo Village, Odintsovsky District, Moscow Region 143025 Russia  
+74955393003 | [iems@skolkovo.ru](mailto:iems@skolkovo.ru) | [www.iems.skolkovo.ru](http://www.iems.skolkovo.ru)



**HKUST Institute for Emerging Market Studies (HKUST IEMS)**

Lo Ka Chung Building, Lee Shau Kee Campus  
The Hong Kong University of Science and Technology Clear Water Bay, Kowloon, Hong Kong  
+85234692215 | [iems@ust.hk](mailto:iems@ust.hk) | [www.iems.ust.hk](http://www.iems.ust.hk)



**ISB Institute for Emerging Market Studies (ISB IEMS)**

AC-3, Level 1, Indian School of Business Gachibowli, Hyderabad 500 111 India  
+914023187027 | [iems@isb.edu](mailto:iems@isb.edu) | [www.isb.edu/iems](http://www.isb.edu/iems)

Novaya ul. 100, Skolkovo village, Odintsovsky District,  
Moscow Region 143025, Russia

Phone: +7 (495) 539 3003

Fax: +7 (495) 994 4668

Email: [iems@skolkovo.ru](mailto:iems@skolkovo.ru)

Website: [www.skolkovo.ru](http://www.skolkovo.ru)