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INDIAN MARKETS AND MARKETING:
THE EMERGING PERSPECTIVE

by

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With a population of over 600 million people, India is a vast market, at least in the demographic sense. This population, which is presently growing at an annual rate of 2%, is potentially a very large market for all kinds of consumer non-durable and durable goods. The actual size of this market is constrained by several economic and social factors. There are indications that some of these constraints might get relaxed as a result of political and economic developments.

Although predominantly an agricultural country, India has developed a substantial industrial base in the years following independence from British colonial rule in 1947. The industrial sector has expanded faster than the total economy and its growth rate has been higher than usual in recent months. The industrial sector, therefore, constitutes a rapidly expanding market for raw materials, intermediate goods, and capital goods.

The purpose of this paper is to examine the nature and prospects of Indian markets. The paper also discusses the nature of the marketing system which has evolved to cater to these markets. Finally, the paper attempts to develop some guidelines for marketing strategy and public policy in view of the emerging perspective.

THE INDIAN MARKET

General Characteristics

Table 1 shows the population, national income, and per capita income of India in the years 1960 and 1974.[1] This table shows that while national income (in real terms) has increased, population has also increased almost proportionately. The result is that per capita income has risen only marginally. The slow rise of per capita income would suggest that consumer markets have not expanded significantly. However, this is not entirely correct. The sectoral composition of the national product has changed so that more of the income is generated in wage and salary earning sectors such as manufacturing, transport, and public administration (See Table 2). The declining share of agriculture implies that a larger proportion of national income enters market transaction. This is because a major portion of the agricultural product is not in the form of commodity production and hence outside the exchange economy.[2]

Though the share of agriculture in the national product is declining, the rural market for manufactured consumer goods continues to be far larger than the urban market. It is estimated that the rural market for manufactured consumer products is nearly three times the corresponding urban market.[3]

The Consumer Goods Market

The consumer goods market is numerically large and has expanded with more wage-earners added to it. However, the consumption standards of this market for most products have been stagnant or rising very slowly. Table 3 shows the per capita availability of important articles of consumption. Except for tea, electricity and to a lesser extent sugar, the per capita availability of other items has been stagnant or declining. The same has been true for popular and commonly used toiletry products. For example, in the period 1971-74, there was substantial decline in the overall availability of popular talcum powders, face creams, hair oils and soaps.[4]

There are several reasons for the stagnating consumer goods markets. Because of the unequal income distribution, the base of the consumer goods market has remained quite narrow. For example, the top 10 per cent of the urban and the rural population together consume about 36 per cent of the total supply of manufactured consumer goods.[5] In fact, there has been little or no growth in the income of the poorest 40 per cent. It is evident that any policies which ameliorate the economic condition of the lowest stratum would lead to a rapid expansion of consumer goods markets.

There are also constraints on the supply of consumer goods. Many consumer products such as tea, cotton fabrics, coffee, sugar, footwear, fish, etc, are exported. This reduces the domestic supply. Also, fresh investment in consumer goods industries is given low priority as compared to investment in the industrial sector. Most consumer products industries are dominated by multinational corporations and monopoly Indian houses. These companies prefer to concentrate on narrow but highly profitable upper income market segments.

The consumer markets are thus constrained by both a narrow demand base and restricted supply. Government policy has recently sought to maintain and increase the supply of essential mass consumption items by requiring some manufacturers to produce low-priced popular brands. However, this policy has produced mixed results because the government has no influence over the marketing support provided to the low-priced brands.

The results of certain juridical changes pertaining to land tenure, feudal labour contracts, and minimum agricultural wages would be of interest from the point of view of demand for consumer goods. If these juridical changes bring about the envisaged agrarian reforms on a mass scale, there could be substantial expansions in rural markets for consumer goods.

It should be noted that imports do not play a significant role in the consumer goods markets, except in the case of foodgrains. This situation is likely to continue unless the present substantial balance-of-trade deficit gets converted into an equality substantial balance-of-trade surplus in the years to come.

The Industrial Market

In contrast to the market for consumer goods, the industrial market has expanded substantially. Table 4 shows theproduction of selected industries in the years 1960 and 1974. Rates of growth for many industrial products and materials such as power transformers, electric motors, sulphuric acid, and aluminium have been impressive. The industrial markets have grown not only through the expansion of established industries but also through the diversification of the industrial base. Many new industries such as petrochemicals, instrumentation, computers, automatic machine tools, special alloys, etc. have appeared only in the past two decades. Significantly, many of these industries are dominated by public sector corporations.

The growing industrial sector requires increasing imports. However, the composition of imports has changed significantly in the last few years. Table 5 shows the major imports for the years 1965 and 1974. The consumer goods imports, consisting of foodgrains, have gone up by about 50%. With increasing agricultural production, food imports are likely to stabilise or even decline. The imports of raw materials and intermediate manufactures have risen more than 2½ times in a 10-year period. About half of the increase is attributable to the steeply rising petroleum import bill after 1973. However, the imports of fertilisers, chemicals, drugs, paper and steel have also risen substantially. With the accelerating pace of industrialisation, the imports of raw materials and intermediate manufactures can be expected to continue to rise. In fact, if the oil exploration efforts lead to a reduction in petroleum imports, it is very likely that the imports of other raw materials and intermediate manufactures will rise sharply. There is already a trend toward the import of semi-processed goods which can be subjected to value-adding processes domestically.

The declining imports of capital goods point to the self-sustaining nature of the industrial base. The creation of a viable heavy industry in the public sector has taken care of much of the capital equipment needs of the industrial sector. However, this self-sufficiency is limited to conventional forms of technology. The Research & Development capability of the industrial sector is still at an infantile stage. Under the existing pattern of development, it is reasonable to expect that there will be a spurt in the outright buying of newer, more sophisticated technologies. This is likely to happen in fields like electronics, aeronautics, nuclear energy, chemical processes, pharmaceuticals, transportation, computers, oil exploration, mining equipment, agricultural machinery, etc.

Export Performance

It is impossible to understand the dynamics of Indian markets without examining the export trends. Since the economy is closely integrated with the world market, the domestic markets are affected by developments in the international sphere.

Data regarding the growth of some major export items are given in Table 6. Many of the traditional exports such as jute and tea have grown very slowly. On the other hand, exports of engineering goods, sugar, chemical products, and fish products have shown phenomenal rates of growth. The shift from traditional to non-traditional exports has affected the industrial markets significantly. The domestic sales and imports of those raw materials, intermediate products and capital equipment, which are inputs to the export sector, have grown rapidly. Government policy has been favourable towards imports which augment the country's export potential.[6]

The slackening of growth of traditional exports is partly due to the insufficient modernisation of industries such as cotton textiles, jute processing, and tea packing. Many units in these industries will be forced to modernise to maintain their positions in the workd market. Markets for sophisticated textile machinery, food processing machines, packaging and canning equipment, tin plates, paper and paper products, etc can be expected to expand as a consequence of the decisions of traditional units to modernise.

MARKETING IN INDIA

The marketing system in India is the product as well as the producer of market conditions. This system has evolved in response to the needs of the Indian markets. At the same time, it has shaped the nature of Indian markets. In the following paragraphs, some key features of the Indian marketing system are discussed.

Products and Prices

It has been pointed out that the market for consumer products has a narrow base. This is reflected in the mix of consumer products available in the Indian market and their prices. Although there is a proliferation of high-priced, premium brands, the availability of low-cost functional products remains low. A few packaged goods such as matches, cigarettes, tea, and soap have penetrated the rural market. However, these are exceptions. The vast majority of branded products cater to a limited urban market.

In recent years, there is some evidence of product adaptation to create low-cost, functional products. Such adaptation has entailed simplification or elimination of packaging, branding, and non-essential product features. The impetus for such changes usually comes from small-scale manufacturers who begin to undercut the dominant brands in localised markets. A steep rise in packaging costs has also contributed to such product changes.

Because of the limited market base, the prices of consumer products, durables and non-durables, are relatively high. For example, the domestic price of almost all consumer durables and most packaged goods is higher than or equal to the international price. This is inspite of the fact that labour costs in India are among the lowest in the world and marketing costs are almost one-third of those prevailing in the advanced Western countries.

Consumer goods marketers in India prefer to rely on a high-margin, low-volume strategy rather than a low-margin, high-volume strategy to maintain and enhance their profitability. Because the affluent population stratum is small, predominantly urban, well-identified, accessible and well-integrated into a known consumption pattern, the marketers find the high-margin low-volume strategy workable and in fact relatively risk free. Three developments could change the production and price structure of the consumer goods sector:

1. Changes in Social Structure: It has been pointed out that changes in the agrarian social structure could create a spurt in the demand for mass consumption goods. Low-priced, functional products would be forthcoming to meet such demand.

2. Changes in Industry Structure: It is possible that government intervention in the production and/or distribution of certain mass consumption goods could bring down the prices of such goods.[7]
3. Quantum Increase in Exports: It is possible that a major increase in the exports of certain consumption goods, by ushering in scale economies in production and marketing, could bring down the costs and prices. This would be analogous to similar developments in South East Asian countries. Such export jumps are usually the result of production tie-ups. It is significant to note that production tie-ups with Eastern Europe have been mentioned as a major plank of export strategy in a recent official announcement.[8]

Although all three developments are possibilities, they are listed in the ascending order or probability. Thus, it is highly probable under present conditions that major production tie-ups will be conducted with foreign countries for consumer as well as industrial goods.

The prices of industrial products have not risen as much as those of consumer products. Table 7 shows the price indexes for selected consumer and industrial products for the years 1960 and 1974. It is evident that while the prices of all commodities have risen sharply: the price of capital goods (machinery, transport equipment) and finished manufactured products have not increased as much as those of consumer products.

The range of industrial products available indigenously has increased considerably as a result of technology assimilation, know-how transfer, and innovation. The widening product base and relatively stable prices portend a period of sustained growth in India's industrial markets, both domestic and international.

Distribution

With approximately 3.5 million retail outlets, India has perhaps the largest retail network in the world in quantitative terms. However, the typical retail outlet is very small in terms of turnover.[9]

The reach of most manufactured consumer products is low in comparison to the vast retail network. There are certain exceptions - matches and cigarettes (7 - 8,00,000 outlets), packaged tea (5-600,000 outlets), packaged soap (3 - 400,000 outlets). For example, the direct distribution of most manufactured consumer products hardly reaches 500 to 600 urban markets. This compares quite unfavourably with the total market consisting of about 2000 areas classified as urban and approximately 575,000 villages. It can be expected that government policy as well as competitive pressures will work in the direction of extending the reach of popular consumer products.

The retail and wholesale margins in India are low compared to those prevailing in advanced Western countries. The low margins reflect the high labour intensity of trading activities as well as the relatively low level of services. The evolutionary trends in both these factors point toward a somewhat higher cost of distribution in the future. However, distribution costs are also of concern to government policymakers. If policy measures are adoptedto rationalise distribution of mass consumption products, it is likely that distribution costs may remain stable or even decline.

In the case of many industrial products, the responsibility of physical distribution rests with the purchaser rather than the seller. Goods are sold FOR (Free-on-rail) point of despatch and the purchaser bears the freight. This feature has evolved in a shortage economy where much of industrial production is done on job-order basis. However, such conditions are changing and it can be expected that for many industrial products, distribution services will emerge as an integral part of an aggressive selling strategy. Major industrial companies are already trying to gain wide geographical representation through branch offices, agencies and dealerships, especially in the industrial centres. A trend towards representation in foreign markets, often through export promotion bodies, is also evident.

Industrial distributing companies, which combine distribution, selling, technical assistance and servicing, have been on the Indian industrial scene for a long time. Such companies offer a package of distributional services and are extensively used by small and medium manufacturers as well as by large enterprises and foreign-based marketers for specific product lines. With the substantial entry of the government in the project engineering field, it is likely that such distributing companies would be created in the public sector.

Advertising

The expenditure on commercial advertising in India is nearly US $100 million. As a percentage of GNP, this is very small compared to the developed as well as most third world countries.[10] However, it should be noted that this expenditure is directed mainly at the top 10% of the urban and rural population. In terms of both media and content, Indian advertising reflects an urban and elitist bias. For example, the informational content of most advertising in terms of product or price information is very low while the emotive content is rather high. In the case of a few products, this situation is beginning to change because of price competition or demand recession.

Print media account for the largest share of advertising expenditure, although cinema (commercial films) followed by radio have a far greater reach than print media. Television as an advertising media is very new and reaches the upper income fringe in just seven cities.

Since the vast rural market is not easily accessible through either print or broadcast media, the use of outdoor media is widespread. Wall paintings, hoardings, rolling-stock advertising and even shop point-of-purchase display are used quite extensively, and usually effectively, to communicate with the rural masses.

In relation to the substantial (and growing) industrial base, the media for industrial advertising are underdeveloped. Trade and technical journals are poor in terms of reach as well as effectiveness.[11] Trade and technical publishing is often in the hands of individuals with no long-run professional interests. Because of lack of availability of good trade media, industrial advertising appears in the regular print media, mainly daily press. Although the effective reach to total reach ratio is very low, the daily newspapers provide a suitable editorial climate and reader interest for most industrial products.

Marketing Services

The development of professional marketing services, especially research and market information agencies, has been rather slow. Consumer product companies, which are major potential users of such services, have preferred to develop inhouse research competence and sources of market information. It is not unusual to find a company conducting even an all-India readership survey for internal use.

There seem to be several reasons for the underdeveloped state of professional marketing services, the primary reason being the small size of the market for such services. The consumer goods industry, especially the branded and advertised goods sector which is sophisticated enough to use marketing services, is dominated by a small number of large business houses. In such a market structure, the need for marketing research and other services is not very salient. Other factors inhibiting the growth of marketing services are: i) relatively low use of analytical decision making techniques in marketing, ii) shortage of skilled researchers, iii) lack of enterprise in developing new services and iv) pricing of research services.

In recent years, some good marketing services have come into existence, most notably the readership survey and retail audits conducted by Operations Research Group. Because of the fluctuating nature of their business, some advertising agencies have also diversified into consultancy and research services. With the increasing emphasis on exports, marketing services can be expected to grow to cater to the needs of Indian exporters.

SOME IMPLICATIONS

This paper has sketched the broad outlines of Indian markets and the marketing system which has evolved to cater to these markets. The consumer goods markets have a narrow, predominantly urban base. The expansion of these markets is contingent upon several economic and social changes.

Indian marketing system reflects the lop-sidedness of markets - in fact, it has created this situation. Although the needed expansion of markets and rise in living standards can come about only through the reduction of social and economic inequalities, an active public policy can help considerably in improving the functioning of the marketing system. This would require informed, forward looking policy formulation to improve the structure, conduct and performance of consumer markets. In this respect, the marketing-related legislation in India is considerably advanced by Third world standards and further reforms are under consideration.[12] But a comprehensive public policy for the consumer goods sector requires, above all, an impetus for increased production and efficient distribution of low-cost, functional consumer products. Under the present industrial structure and industrial policy, a public sector marketing corporation can perhaps ideally provide such an impetus.[13]

The industrial markets have grown and diversified rapidly, primarily as a result of a conscious policy of industrialisation. At the base of the industrial growth is a structure of heavy industries in the state sector. It is this infrastructure which creates the preconditions and opportunities for indigenous industrial growth and expansion of internal and export markets. The sustenance of industrial growth would require efficient marketing interfaces both domestically and internationally. These interfaces could take the form of distribution and promotional agencies, technical media, trade show facilities, and consultancy services. Given the present structure of the industrial goods sector - state-owned heavy industry along with privately-owned small and medium-scaled industry - it is evident that most of these interfaces would have to be provided by the state.

The increasing importance of international trade - both exports and imports poses both an opportunity and a threat for Indian markets and marketers. Unless selectivity is exercised in international trade, it is very likely that a dependent pattern of industrialisation will take hold as has happened in many South-East Asian countries and even Japan. The vulnerability of such an industrial structure to the business cycles of developed western economies is obvious. Only a carefully enunciated and enforced foreign trade policy will enable the country to selectively gain by boosting export earnings and importing relevant technology.

Notes

1. All figures are approximate and are presented in United States dollars for comparative purposes. The source of data for tables, unless otherwise indicated is: Government of India, Economic Survey, 1975-76.

2. In 1960, the proportion of foodgrain production available for the market was 25%, the rest being consumed on farm. In 1975, it is estimated that this increased to 35%. See John R. Moore, Sardar S. Johl and Ali M. Khusro, Indian Foodgrain Marketing New Delhi: Prentice-Hall of India Pvt. Ltd., 1973. The increase is due to migration from rural to urban areas, increasing agricultural productivity, and changing agrarian relations with wage labour replacing a part of share cropping and marginal farming.

3. Ranjit Kumar Sau, Indian Economic Growth: Constraints and Prospects, Calcutta: Orient Longman, 1973, pp. 29-32.

4. Subroto Sen Gupta, "The Elite Barrier to Consumer Goods Marketing", R.K. Sirkar Memorial Lecture, Advertising Club, Calcutta, 1975. The decline for most products was in the range of 15-25%. The data pertain to urban markets.

5. Sau, op.cit

6. In the Import Trade Control Policy for 1976-77 "a more liberal approach has been adopted in the matter of providing appropriate inputs to strengthen the export production base as also to make it competitive and growth oriented in the international market". Government of India, Ministry of Commerce, Import Trade Control Policy, 1976-77, Vol.I.

7. A proposal for such intervention in the case of essential drugs has been made recently by a committee set up by the Government. See Report of the Committee on Drugs and Pharmaceutical Industry Ministry of Petroleum and Chemicals, Govt. of India, April 1975.

8. "Export Strategy Outlined", Economic Times, July 21, 1976, p.1

9. The average annual turnover of a retail outlet in India is $ 2,500 compared to $ 60,000 in UK and over $ 200,000 in USA.

10. Advertising as percentage of GNP in 1972 was 0.16% in India, as compared to 2.00% in USA, 1.14% in UK, 0.86% in Turkey and 0.40% in Egypt. Data from an International Advertising Association survey reported in Economic Times, May 4, 1973

11. One leading industrial company uses only the front cover of technical journals on the assumption that most readers are unlikely to turn to inside pages!

12. For a discussion of marketing and public policy in India, see Rakesh Khurana and others "Marketing & Public Policy" working paper, Indian Institute of Management, Ahmedabad, 1976.

13. See Labdhi Bhandari "Meeting the Consumption Needs of Masses: A Proposal for a Public Sector Marketing Corporation", paper presented at Seminar on Public Distribution Systems, IIMA, Aug. 19-20, 1976.

Table 1

Population, National Income, Per Capita Income

Item	Year 1960	Year 1974
1. Population (millions)	433	586
2. National Income* (million dollars)	14,740	22,300
3. Per Capita Income* (dollars)	34	38

* At constant 1960-61 prices (US $ 1 = Rs 9)

Table 2

Percentage Distribution of National Product

by Industry of Origin

(at constant prices)

Industry Group	Percentages 1960	1974
1. Agriculture and mining	53	41
2. Manufacturing, construction utilities	19	24
3. Transport, Communication, trade	14	16
4. Banking, insurance, real estate	4	4
5. Public administration, defence	10	15
	100	100

Table 3

Per Capita Availability of Important Items of Consumption

Item	Per Capita Availability	
	1960	1974
Foodgrains (grams/day)	460	450
Edible oils and fats (Kg/year)	4.0	3.8
Sugar (Kg/Year)	4.7	5.8
Cotton Cloth (metres/year)	13.8	12.9
Tea (grams/year)	287	435
Domestic electricity (kwh/year)	3.4	8.6

Table 4

Production of Selected Industries

Industry	Unit	Production in 1960	1974	Percentage increase 1960-1974
1. Coal	million tons	56	91	63%
2. Finished steel	"	2.4	4.9	104%
3. Aluminium	'000 tons	18	127	606%
4. Automobiles	'000 Nos.	55	82	49%
5. Power Transformers	'000 KVA	1413	12438	780%
6. Electric motors	'000 HP	728	3685	406%
7. Radio receivers	'000 Nos.	282	1966	597%
8. Sulphuric Acid	'000 tons	368	1434	290%
9. Cement	million tons	8	15	88%
10. Refined Petroleum Products	million tons	6	20	233%

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Table 5

Major Imports

(million of dollars, US $ 1 = Rs 9)

Item	Imports in 1965	Imports in 1974	Percentage Change 1965-1974
1. Consumer goods	564	849	+ 50%
2. Raw materials and intermediate manufactures*	863	3151	+267%
3. Capital goods*	893	775	- 13%
4. Others	145	190	+ 31%

* Major items are petroleum, fertilizer, steel, chemicals, and paper.

** Major items are mechanical and electrical machinery and appliances.

Table 6

Major Exports

(Million of dollars, US $ 1 = Rs 9)

Item	Exports in 1960	Exports in 1974	Percentage growth 1960-74
1. Jute manufactures	236	328	35%
2. Tea	215	249	16%
3. Cotton fabrics	101	176	74%
4. Iron ore	30	178	494%
5. Leather & leather manufactures	44	161	266%
6. Cashew Kernel	33	131	297%
7. Engineering goods	15	392	2515%
8. Sugar	42	376	795%
9. Chemicals and allied products	6	103	1591%
10. Fish and fish preparations	8	74	825%

Table 7

Index Numbers of Wholesale Prices

Item	Index Number (1961=100) 1965	1974	Percentage Increase 1965-1974
Food articles	145	364	151%
Liquor & tobacco	133	305	130%
Industrial rawmaterials	133	327	145%
Chemicals	126	300	138%
Machinery & transport equipment	118	242	105%
Manufactured intermediate products	125	320	156%
Manufactured finished products	116	239	106%