

A WHOLE NEW BALLGAME: ANALYZING AND UNDERSTANDING
INDIA'S EMERGING MIDDLE CLASS MARKET

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A WHOLE NEW BALLGAME: ANALYZING AND UNDERSTANDING
INDIA'S EMERGING MIDDLE CLASS MARKET

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To my grandfather, David:

We hardly knew each other, but none of this would have been possible without you.

Abstract

With a population of roughly 1.2 billion, India is home to the world's largest democracy and by 2030, as demographers predict, the world's most populous nation. More importantly, India contains one of the fastest-growing economies in the world today. Since liberal economic reforms were first enacted in 1991, India has become a preferred location for Foreign Direct Investment (FDI) from businesses looking to take advantage of this massive new market. While India does have pressing poverty issues, with over 40% of the population living under the international poverty line, its consumer middle class is projected to skyrocket to roughly 583 million people by 2025. With even more recent economic reforms opening India up to the free market, the steady stream of FDI is transforming into a raging river of prosperity. However, any business planning on recycling the same market globalization strategies is setting itself up for failure. For a foreign company to succeed in India, it must understand the unique nature of the Indian consumer as well as the remarkably heterogeneous, schizophrenic nature of India itself. The goal of this thesis is threefold: First, to convince businesses of the pressing need to enter the Indian market; Second, to give an interested company a road map of the complex modern marketplace of India through careful segmentation of Indian consumers as well as an analysis of the successes and failures of big retailers such as Wal-Mart and Kellogg's; and last, to give that company a winning market strategy for Consumer India.

Introduction

India today has become a candy store to the largest and most recognized companies in the world. Facebook, Google, and Microsoft are all building up massive operations in the bustling technology parks of Bangalore and Hyderabad; Retail giants Coca-Cola and Wal-Mart are all unleashing a torrent of investment with the aim of capturing the lion's share of this much sought after market. But why are these companies focusing so much of their efforts (and more importantly, cash) on a nation that, until recently, was largely considered "third-world"?

After only a quick glance at the numbers, the answer quickly becomes obvious. Home to over 1.2 billion people, India is the world's largest democracy and soon, if current birth rates persist, the largest nation on Earth. Economic figures only intensify the attraction; the Indian economy has averaged over 8% GDP growth in the last three years. (CIA World Factbook) Compare that with the US economy, which is still struggling to avoid another disastrous recession, and it becomes clear why so many companies are hopping on the Indian bandwagon. Obviously, as globalization logic goes, India's emerging middle class will emulate the consumption habits of their counterparts in more developed countries such as the US, right? Well, as many global brands have already found out, this strategy is doomed to fail. Corporations must develop market strategies tailor-made to India if they want any chance to succeed; think local instead of global. In other words, they must change their business mindset

from globalization to “glocalization”. First used by the Japanese to denote to their global market strategy in the 1980’s, glocalization in the business world now refers to the reverse innovation of products with the aim of adapting and appealing to local markets. Glocalization theory rejects the claim that globalization is an entirely homogenous process; instead of destroying local cultures, it blends the global and the local to create something entirely new. (Matusitz & Reyers, 2010, p.233)

Winston Churchill once remarked, “India is merely a geographic expression. It is no more a single country than the equator”. (Bijapurkar, 2007, p.29) Undeniably, India’s cultural, linguistic, and economic diversity remains overwhelming even in the modern era. So how exactly should corporations go about making a market strategy for Consumer India? First, it is absolutely crucial to understand the one thing that every Indian has in common: a shared history. The past two decades of India’s history has been anything but boring.

The year 1991 was one of the most decisive turning points in human history. The final dissolution of the Soviet Union signaled not only the end of Marxism as a widespread governing economic ideology (with only Cuba and North Korea remaining as the only truly communist nations); it marked an entirely new and supercharged era of globalization. In his best-selling book *The World is Flat*, New York Times columnist Thomas Friedman refers to this phenomenon as “Globalization 3.0”. The first two eras of globalization, he explains, were much less widespread. Nations were the original global players. After the Industrial Revolution, multi-national corporations took their place on the global stage. Now, finally, with revolutionary technology such as the Internet becoming more and more prevalent throughout the world every day, the new performer on the global stage is the individual. The concept of globalization, as

well as the monumental importance of the past two decades, is fully understood by Indians today. (Friedman, 2005, pgs. 9-11)

With the memory of British capitalist exploitation still fresh, India's leaders governed with a socialist, protectionist, and anti-colonial economic ideology up until two decades ago. The catalyst for change arose from the final collapse of the Soviet Union. (India: the economy, 1998) With the end of the Cold War, the government of India lost a major trading partner and a huge source of foreign aid. This in turn led to a serious balance of payments crisis, causing the Indian government to seek assistance from the International Monetary Fund (IMF). As part of the IMF's bailout deal, the government was required to implement several economic structural reforms, including privatization, deregulation, tax reforms, and most importantly, opening the country up for foreign investment. Numerous MNCs seized the opportunity and began pouring billions of dollars into this previously untapped and massive market. (India: the economy, 1998)

The effects of liberalization are difficult to overstate. As recently as 1985, ninety-three percent of Indians lived on less than a dollar per day. By 2005, that number had been cut nearly in half, to 54 percent, and is falling rapidly. (Beinhocker, Farrell & Zainulbhai, 2007) Consequently, the number of Indians joining the ranks of the middle class is increasing at an equally feverish pace. Estimates vary, but a recent study from the National Council for Applied Economic Research (NCAER) shows that in five years, the number of middle-class households in India will increase from 31.4 million to 53.3 million, or **267 million people**. (*Economic Times*, 2011) So again, how can companies take advantage of these eye-popping numbers? Simple: look beyond them.

In terms of its diversity, the nation of India is more comparable to the European Union than the United States. Thus, would it be wise to utilize the same market strategies and the

same products for British and Romanian markets? In a similar sense, it would be equally absurd to do the same in the Indian states of Tamil Nadu and Maharashtra. In both cases, regional politics, income levels, and especially culture are all drastically different. The right question to ask isn't 'what is the size of market that India offers for my global strategy', but rather 'what should be my local, customized strategy for the Indian market'. This is a lesson which corporate retail giant Wal-Mart has learned from experience. (Bijapurkar, 2007, p. 9)

The purpose of this thesis is threefold: First, to convince MNCs as well as entrepreneurs of the pressing, dire need to explore and enter the Indian market; second, to give the reader a thorough understanding of how to properly "glocalize" a product in order to appeal to the unique nature of the modern Indian consumer, and lastly to examine the barriers to reaching Consumer India by analyzing the Indian operations of retail giant Wal-Mart.

Why India?

It's a question any sensible business person would ask. Why should I invest my money in India instead of someplace else? What is the opportunity cost of exploring Consumer India? After all, there's no shortage of options in today's global marketplace. In fact, analysts have termed the world's top emerging markets as the BRIC countries: Brazil, Russia, India, and China. Of course, each has its own set of obstacles. Brazil has exceptionally difficult barriers to entry (ranked 126th out of 183 countries by the World Bank for ease of doing business); the Russian economy is entirely dependent on oil prices (not to mention the turbulent political situation). And then there's China. (*World Bank*, 2011)

"India is the second biggest game in the world (after China); however, this game has just begun, and entry tickets are still selling cheap". (Bijapurkar, 2007, p. 39) The Chinese and Indian economies share many similarities, so much so that a new term has been coined for their collective market: Chindia. (Abdoolcarim, 2007) Both of their comparably massive populations comprise about 40% of the world's inhabitants. Both are experiencing relatively rapid economic growth. However, broad similarities end there. In fact, when their respective demographics are analyzed further, it becomes clear that these are two very distinct places.

Take the all-important population statistic, for example. China seems to have a clear advantage over India in this category (1.34 to 1.2 billion), yet these mind-boggling numbers don't tell the real story. For a true indicator of future economic growth, the crucial statistic is

population growth rate. In this category, India is certainly ahead; its rate of 1.312 trounces China's extremely low 0.481. (*CIA World Factbook*, 2011)Of course, this is no knock on the virility of the Chinese people. The Chinese government's one-child policy played a huge role in alleviating the dire problems of overpopulation and overconsumption that China was experiencing when it was implemented. However, one unintended effect of this policy happens to be a problem that the more developed nations of the West are just now beginning to experience.

Americans are used to candidates spewing heated rhetoric every election season. This year, though, one previously ignored issue has risen to the forefront: debt. Each candidate makes vague promises about cutting deficits and paying down our debt, yet few (if any) mention its primary cause. America's population, like most other developed nations as well as China, is aging rapidly. Every year, more and more workers retire from the workforce, and fewer young people are there to replace and support them. This translates not only to slowed economic growth but also to rising health care costs. Unable to count on their single child to support them in their old age, more Chinese retirees will be forced to turn to their government for assistance. Consequently, this growing burden will seriously hinder the Chinese government's budget flexibility and prevent it from investing in much needed areas such as education and infrastructure.

India today has many problems, but an aging population is certainly not one of them. Almost thirty percent of Indians are aged 0-14, as opposed to 17.6% for China and 20.1% for the US. Those children don't just represent future workers; they represent future **consumers**. Like China, India also has a vast supply of inexpensive labor. Unlike China, however, India's workforce has a distinct advantage when it comes to skills. After all the years of imperialism and

exploitation, the British did manage to leave one “gift” to their former subjects: language.

Although India has fifteen different official languages, English still enjoys the privilege of the primary language for national, political, and commercial communication. (CIA World Factbook, 2011)

All of these advantages are why India has become world’s back office and a major exporter of IT-enabled services. In the minds of many American consumers, the image of India has gone from that mystical, exotic jungle seen in movies like *Indiana Jones and the Temple of Doom* to “that place where my tech support call gets transferred”. However, most Americans might not know that even more skilled, essential and, unfortunately, personal services are being outsourced to India without them even knowing about it! Would you mind if someone you’ve never met analyzes your tax returns halfway around the world? The outsourcing of tedious work like number-crunching allows US accounting firms to spend more face time with clients as well as search for every possible tax loophole (don’t worry, your returns will remain anonymous!). Security and privacy issues aside, this growing specialization of labor translates to more money into Indians’ wallets and good news for companies looking to move in. (Friedman, 2005, pgs. 12-14)

Remarkable political stability is another vital, yet often overlooked factor in India’s recent explosion of growth. In sharp contrast with its South Asian neighbors, the world’s largest democracy has a secular, liberal constitution. India has a complex political arena as well; hundreds of political parties compete for the votes of over 700 million eligible citizens, vying for national, state and local offices. (*India Business Forecast Report*, 2009) Though critics argue that the large coalition governments required to make policy hinders necessary reform, it’s hard to argue that the benefits of an authoritarian state outweigh those of a liberal democracy.

Although India has certainly had its share of scandals, a recent World Bank study shows that democratic political institutions are associated with lower levels of corruption. (Lederman, Loayza & Soares, 2001, p. 1) An independent judiciary and a strong, independent, and free press are both vital to the success and stability of Indian democracy. These strong institutions are also an important reason why Washington and New Delhi are coming closer together. The looming specter of China ensures that India and the US will not only forge a close geopolitical alliance but also even closer economic ties as well.

Liberalization

The argument for investing and expanding into India would be completely moot if it weren't for the liberal reforms enacted in the early 1990's. Before liberalization, the Indian economy posted slow growth rates so consistently that the phenomenon became known to analysts as the "Hindu rate of growth". Critics argued that Indian culture prevented it from competing in the global marketplace. In reality, massive and inefficient government bureaucracy in addition to choking regulations prevented the Indian entrepreneurial spirit from being unleashed. It's difficult to believe that up to 80 agencies had to be pressed for approval before a license could be granted; even then, the state would make all of the important decisions such as

what is produced, how much, and at what price. It's no surprise that many Indians considered the post-Independence government which replaced the British Raj to be a "License Raj". These socialist policies ensured that by 1991 India had run out of its foreign reserves. This left the country unable to pay for its imports (especially oil), leading to a complete collapse of its credit rating on the international markets. (India: the economy, 1998)The World Bank's desperation bailout plan came with lots of strings attached, but the writing was already on the wall: India had to change.

The reforms initiated by the then-Finance Minister and current Congress Party Prime Minister Manmohan Singh were drastic, yet undeniably necessary. The number of licenses required to start a business was dropped from 80 to around four or five. The tariff cuts were equally strong, falling from an average of 87% in 1990 to 25% in 1995. Restrictions on foreign direct investment were also relaxed; annual FDI rose from \$100 million in the 1980s to \$2 billion in 1995-1996, and all the way up to \$225 billion as of December 31st 2011. (India: the economy, 1998)Another area of reform in the early 1990's was in the financial sector, where capital markets were liberalized. Facing massive government budget deficits and high inflation, the government decided to seriously devalue the rupee, making exporting an attractive option for foreign MNCs. On top of all of these business friendly reforms, the Indian government showed support for consumers, reforming the tax system with lower rates.

The reforms were a resounding and immediate success. India's GDP growth went from a miniscule 0.8% in 1991-1992 to 5.1% the very next year. (India: the economy, 1998)Except for a hiccup in growth caused by the Asian financial crisis of the late 1990s, the Indian economy has continued its steady rise. From 2000 until 2011, the average annual GDP growth rate reached 7.45%, continuing to grow in spite of the global financial crisis and accompanying economic

contractions seen in the developed world. (*CIA World Factbook*, 2011) This confluence of reform, investment, and economic growth has led to the arrival of a completely new Indian middle class.

Although there's a lot of talk among the global business community about the emerging middle class, estimates of the number of middle class Indians vary widely. A 2005 McKinsey Global Institute study determined that 50 million people could be considered middle class, while a World Bank study done in the same year found that number to be as high as 264 million. (*McKinsey Global Institute*, 2005) Today, there still is no consensus on the size of this new middle class, but the well-respected and oft-cited National Council for Applied Economic Research (NCAER) states that as of 2011, the number is hovering around 160 million and growing rapidly; the Council expects that number to skyrocket to 267 million by 2015. (*Deutsche Bank*, 2010)

So why do these estimates vary so widely? The key to interpreting the numbers is in the parameters. Unlike here in the US, there is no official definition of "middle class" in India. Some studies used disposable income as a measuring tool. However, be wary of relying on this simple metric; it can prove deceptive. Many puzzled business people wonder, "How can someone who earns so little afford to buy so much and still manage living expenses for a family of five?" The truth is that income data for India must be obtained through household surveys and due to cultural norms, is almost always underreported. Instead, rely on much more reliable consumption data. A mantra to remember: "Consumption is like maternity, a certainty. Income is like paternity- merely a matter of inference." (Bijapurkar, 2007, p.92)

Indeed, even when per capita income takes into account purchasing power parity (PPP), income levels among the Indian middle class still appear abysmal when compared with their counterparts in the US; yet, consumption still remains strong. For example, an executive notices fantastic supply side facts, including growth in sales, turnovers and margins. He then looks at the

demand side statistics, but is completely befuddled. The target market's income level, even on a PPP basis, would have placed the household well under the poverty line here in the US; however, sales remain strong.

In reality, the idea of the "Great Indian Middle Class" was nothing more than a marketing pitch for FDI by India after liberalization, when all it had to offer was a market comprised mostly of poor laborers and farmers. Yet, after two decades of phenomenal growth and a genuine, emerging middle class, the myth still remains. No matter how precise the demographic or economic data, no matter how detailed the charts and graphs are, the only way to comprehend Consumer India is to go beyond the numbers. Every business must understand its customers; to understand these customers, it's absolutely crucial to recognize and appreciate the distinct economic, social, and political issues specific to the individual Indian consumer.

The New Middle Class

Indian politician and author Shashi Tharoor once remarked, "Any truism about India can be immediately contradicted by another truism about India." (Bijapurkar, 2007, p. 30) It's both very tempting and very easy for market analysts and business people to make broad, sweeping generalizations about middle class Indians. Some corporations have even used these misguided

analyses to apply what is referred to as the “blunderbuss approach”: making massive up-front investments with the aim of gaining market share quickly. This strategy almost always gets messy. Numerous companies have found out the hard way that Indian consumers’ attitudes, tastes, and perceptions are far different than their Western counterparts.

Any business making its first venture into the perilous jungle that is Consumer India must be careful not to make the erroneous assumption that the modern emerging Indian market will follow the same path as more developed markets in Europe and the US. As GDP per capita rises, so the logic goes, consumption of more “developed” goods will rise proportionally. Therefore, Indians will surely start drinking more cola and popping more Viagra, right? Not quite.

The dramatic differences in taste between the average Indian and Western consumer come in part from differences in cultural values. While globalization has certainly blended some of these values together, the differences are still apparent. Indians are generally more patient, abstemious, and traditional, while Westerners are typically more egalitarian, individualistic, and novel-seeking. Happiness is also a surprisingly subjective concept; Westerners’ view on happiness is generally centered on wealth accumulation, while the Indian concept of happiness revolves around self-harmony. However, the most important distinctions a company must make in India are not between Indian and Western consumers but between the Indian consumers themselves. There are four distinguishing categories anyone seeking success in India must become intimately familiar with: age, location (urban/rural), geography (different states), and socio-economic classification.

While Americans use arbitrary terms such as the baby boomer generation, Generation X, and Generation Y to distinguish the different attitudes, perceptions, and preferences among

different age groups, Indians distinguish each generation by the major political, economic, and social upheavals which they collectively experienced. Consequently, the current so-called “age cohorts” in India today are uniquely shaped by two crucial events in their nation’s history: Independence and Liberalization. Understanding the differences between them is critical, since their shared experiences profoundly affect their consumption behavior.

The oldest, pre-Independence generation shares the Gandhian worldview and values of simplicity, self-reliance, and frugality. In short, you are not likely to see them shop at the neighborhood Wal-Mart or buy the Maharaja Mac at the nearby McDonald’s. Many are still averse to any foreign products; after all, Gandhi’s “Quit India” movement encouraged Indians to boycott foreign goods. In fact, he even turned British mill-made cloth into a symbol of colonial oppression, and encouraged Indians to spin their own homemade *khadi* fabric. (Bijapurkar, 2007, p. 3) The next cohort, the post-Independence generation, is referred to by author Salman Rushdie as “midnight’s children”; they were inculcated with the revolutionary ideals of socialism, self-sufficiency, and thriftiness. This age cohort is composed of people born between 1940 and 1970 and who are now between 40 and 70 years old; they are recognized as the “ruling cohort” in India today. They were the first generation to bear the inevitable hardships which new nations, and especially poor ones, must endure: wars, famines, and unimaginable suffering. Their worldview, as well as consumption habits, is profoundly shaped by these events.

The pre-liberalization generation, made up of those born between 1970 and 1985, is a much more perplexing age cohort. These Indians were indoctrinated with the same socialist ethos as their parents, yet they were also young enough at the time of liberalization to develop a new worldview. Subsequently, they were the ones who pushed India into the 21st century. Naturally, the next generation, those who grew up in an India open to the world, are termed

“liberalization children”. Unlike their stingy, value-conscious parents, these liberalization children have been, for the most part, brought up in a consumption-friendly environment. They aren’t just materialistic, though; instead, the historical Indian culture of “stay in your place” has been replaced by the relatively new concept of upward mobility. Indian society today is at the point where these “liberalization children” are entering the work force en masse and setting up their own households. However, since statistics suggest that pre-liberalization generations will still run over half of India’s households well into the next decade, companies must be careful not to forget the older generations’ influence on consumption behavior. (Bijapurkar, 2007, p. 122)

The wide disparity in the attitudes and tastes of different generations of Indians can certainly be baffling, yet one category in particular is the reason why many marketing experts refer to this market as “schizophrenic India”: the urban/rural divide. Most people in developed nations picture rural India as a land made up mostly of small, subsistence farmers who barely have enough to feed their own family, let alone buy consumer products. For the most part, they’re actually right. About two-thirds of India’s population lives in rural areas, and most of its rural inhabitants are abjectly poor. (*CIA World Factbook*, 2011) Nevertheless, it also contains a new, hidden emerging market that is ready for development.

For the first time in its history, rural India is experiencing rapid income growth; subsistence farming is no longer the only option for survival. Although rural India only has about half of the per capita income of urban India, it contains almost three times as many people. (*CIA World Factbook*, 2011) Also, because urban India is the primary focus of most Western and Indian businesses, the less studied rural India is still the victim of incorrect assumptions regarding both its economy and its people. First, instead of relying solely on agriculture, rural India actually contains a rapidly growing manufacturing and services sector. Second, although

most marketers are put off by rural India's many geographical and infrastructural challenges, it contains many spread-out zones of prosperity. Twenty percent of rural India accounts for forty-three percent of consumer expenditure. (Bijapurkar, 2007, p. 232) Some Indian corporations, such as Hindustan Unilever, recognize these small pockets of rural affluence and engage in micro-market planning. This innovative strategy involves mapping individual districts or even villages and marketing to them specifically. In reality, rural Indians shop the same way America does at factory outlets: travelling long distances to massive one-stop stores and buying in large quantities. No doubt retail corporations such as Wal-Mart and Hindustan Unilever have been targeting these areas. Naturally, the locations of the particularly affluent districts strongly correlate with the economic prosperity of the state where they reside.

The differences between states will influence market strategy in India far more than the United States or even the European Union. India's twenty-eight states contrast so sharply in so many categories that one might believe he or she was studying different hemispheres. Some states, such as Uttarakhand and Bihar, have the economic and political indicators that resemble sub-Saharan Africa while others, such as Maharashtra and Andhra Pradesh, have more in common with China. Recognizing these indicators is crucial for any company's marketing campaign. For instance, a company might be more hesitant to place advertisements in a newspaper when it realizes that only around half of the target market is literate. Coca-Cola has been especially receptive of this message. The company recently recruited Bollywood superstar Aamir Khan to star in multiple advertisements; one where he plays a Punjabi farmer, and another where he plays a Bengali babu (respected elder). (Mukerjee, 2008, p.38) So although both of these ads' target markets are rural, the cultural difference is so wide it merits the expense of an entirely new commercial. Of course, some states are more agricultural and rural

than others, making them harder to reach. However, their most significant differences lie not in their economic, but their political distinctions.

Unlike the American political scene, where two parties dominate both national and state elections, Indian politics consists of hundreds of national, regional, and religious political parties with their own respective agendas; in fact, it's very common for the party in control of the national government to have control of very few, if any, states. (*India Business Forecast Report*, 2009) From Maharashtra's right-wing, nationalist Shiv Sena party to the left-leaning Bahujan Samaj party in Uttar Pradesh, India's political diversity ensures that some state governments will implement drastically different policies towards business and commerce. However, don't assume that left-leaning state governments won't be business friendly. Actually, the communist government of West Bengal has been one of the most aggressive states in attracting FDI while at the same time being the only state to implement significant land reforms. (Bijapurkar, 2007, p.122) Yet regardless of geographical location, economic distinctions persist; not just between rich and poor, but also even between members of the middle class.

Some executives worry that the caste system might adversely affect their business in India. The truth is that while caste does affect voting behavior, it has absolutely nothing to do with consumption behavior. The real determinant is class, not caste. Social class in India is shaped by occupation and education, and affects not only earning capacity but family status and self-image as well. Take the example of the junior executive and the shopkeeper; both have similar incomes, yet the educated executive, more concerned about appearance, will choose to spend his money differently than the shopkeeper. One especially useful system for sorting through the demographic mess known as India is the Socio-economic Classification system, or SEC. What makes the SEC so suitable for Consumer India is that it not only determines how

much a particular consumer segment consumes, but it also identifies what they will or won't choose to consume. (Bijapurkar, 2007, p. 130) It's also important to note the distinctions between the SEC index and income level; whereas TV purchases are more income-driven, the actual TV shows watched are more a function of SEC.

So how do we actually segment this market and find "my target India"? Although the mathematic precision of the SEC does ensure exceptional accuracy, the system has its drawbacks. First, the large number of different number/letter combinations can be confusing, especially to those unfamiliar with marketing lingo; second, and more importantly, the SEC misses a key factor in consumption: psychographic determinants. In other words, psychological motivations can affect consumption behavior just as much as socio-economic status. The Indian advertising agency Rediffusion developed a cross-cultural classification system which segments consumers into five classes: resigned, strivers, mainstreamers, aspirers, and successful. (Bijapurkar, 2007, p. 142) Least likely to be targeted is the "resigned" segment, which consists of the abjectly poor, or those struggling every day to survive. They are "resigned" to their fate, unlike the striver, whose primary aim in life is escaping poverty and catapulting themselves and their families to the middle class. They can barely afford them, yet will still pay for discount FMCG (Fast-Moving Consumer Goods) and education for their children. Those children of strivers often become part of the "mainstreamer" segment. Mainstreamers crave security, value and social acceptance; accordingly, family and conformity are also very important to them. Companies like Honda have been very successful marketing popular motorcycles like the Honda Splendor to this group. Status is of paramount importance to the "aspirer" group. Because they desire status and success, marketers often appeal to collective envy when targeting leading brands of products such as televisions and stereos to this group. Many aspirers eventually move

up into the “successful” class, where material wealth has already been achieved. Premium brands, both Indian and Western, are heavily targeted at this segment.

Clearly, there is more than enough pent-up demand in India to warrant the focus of any serious entrepreneur or corporation. Still, no company can afford to assume that last year’s wildly successful Chinese model will fly off of Indian shelves as well. Contrary to the opinions of several leading consulting firms, demand does not follow supply in developing markets. The Indian consumer has been systematically segmented and analyzed, but the question still remains: How does a company tap into Consumer India? One word: “Glocalization”.

Market Strategy for Consumer India

One absolutely crucial fact when considering the Indian market is that strategies used for developed markets are relevant only to a very small percentage of mostly urban Indian households. Thus, unlike at the start of liberalization twenty years ago (when only ten percent could even remotely be considered middle class), companies operating in India today must develop customized, localized strategies to win over this rapidly expanding market. In modern India, whoever “glocalizes” their product the most has the edge. This strategy is especially important in rural India. Twice as many people with a rapidly growing economy, the recent explosion in demand ensures that necessary infrastructure for trade will (eventually) be built.

However, don't just wait for things like electricity to start marketing your "globalized" goods; instead innovate. That's one part of a strong four-tiered market strategy for the Indian market: Analyze, Adapt, Position, and Innovate.

A thorough analysis of all key indicators, including age, geography, culture, and socio-economics, is nothing less than vital in this first step. Even the largest and most respected retail giants can succumb to the Indian market by not doing their homework. Take Kellogg's, for example: the breakfast titan recently tried selling its cereals to South Indian consumers with the angle that they were "nutritious, fat free, cereal based and a very convenient way of (not) cooking breakfast in the morning". (Bijapurkar, 2007, p. 265) To most of America, it's quite an appealing pitch. Unfortunately, had Kellogg's marketing team done its due diligence, it would have discovered that its main competition, the savory breakfast cake known as an *idli*, is also nutritious, cereal based, fat free AND far more affordable. Worse, a focus group consisting of South Indian housewives pointed out that the convenience value which so enticed Western consumers was negligible to them. They simply did not view cooking an extra meal as any kind of inconvenience, and saw cold, snacky breakfasts as unhealthy. Kellogg's fell victim to value arrogance, or the occurrence when big brands misguidedly assume that their products constitute "progress" in the developing world. The mistakes of Kellogg's are easy to repeat, yet also easy to avoid. Instead of broadly evaluating the market, delve deeper. Investigate the language, location, customs, and economic activities of the specific region, even the specific district to which the company is looking to market. Once focus groups, surveys (both online and in-person), and in-depth, comprehensive research are utilized, the company can then move on to the next step.

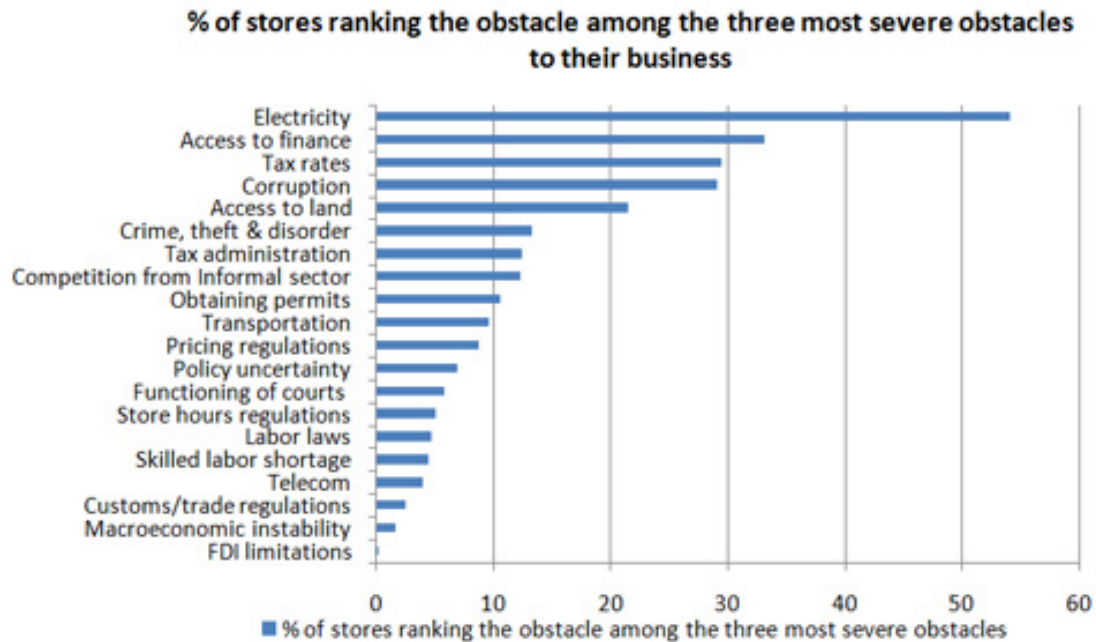
The ultimate test of a product is if it can be properly adapted to suit the rugged and diverse Indian market. This means that consumers not only must prefer the product's features but afford them as well. It could be as complex as Honda modifying its cars to drive on the notoriously treacherous Indian roads or as simple as changing the product's package size. For instance, let's say a company is marketing shampoo to a relatively poor, lower middle-class urban district. The women don't see the need to shampoo their hair outside of special occasions and would likely avoid spending precious rupees on an unnecessarily large bottle. Instead, smaller bottles would meet the consumers' needs and undoubtedly achieve more success. On the other hand, rural consumers are severely limited by distance and, often, adequate transportation. Hence, they require larger quantities and fewer trips; market that larger bottle of shampoo to them instead. After the product has been suitably adapted, it's time for the marketing team to take over. (Banham, 2011, pgs. 32-33)

Positioning the product to its target market is the next imperative step in the marketing process. Even the best adapted product can flop without the right product positioning, as Kellogg's already discovered. Their mango-flavored cereal was localized and adapted to the taste but not the mentality of their consumers. Kellogg's mistake wasn't marketing cereal to Indian consumers; it was marketing the product as **breakfast** cereal. Instead, if the company had marketed its cereals as a kind of after-school snack, when both parents are busy, it likely would have had more success. Although a full and complete analysis, adaptation, and positioning will definitely increase chances of success, barriers to a product might still exist. Sometimes a bit more creativity, vision and resourcefulness is required.

Obviously, challenges faced by companies operating in India are different than those faced in the developed world. Foremost among these problems is infrastructure. In urban areas,

roads are inadequate, traffic is dreadful, and the power system is as reliable as a coin flip. In many rural areas, though, there are neither roads nor electricity. While the Indian government has promised to build more airports, highways, power grids, and roads that can actually withstand their first monsoon, it will take years, possibly even decades for any significant impact to be felt. All the pent-up demand is there, but it's up to the private sector to do what it does best: find creative and innovative solutions to pressing problems. Of course, I'm not advocating that companies like Wal-Mart upgrade all of India's roads out of its own pocket, but there are cost effective, feasible methods of connecting relatively isolated towns and villages to the global economy. The number one problem for Indian retailers is a lack of reliable electricity, so instead of waiting for the inept Indian bureaucracy to bring electricity to these untapped markets, utilize solar energy and LED technology to create affordable lighting for the entire community. (Amin, 2010, p.2) Projects like this will not only connect the company to its target market, but will also demonstrate relevance to the consumers by providing a valuable social service. With stiff competition from both Indian and foreign firms, those kinds of good-faith gestures could mean life or death in this cutthroat market.

Following these four steps won't guarantee success with Consumer India, but just like counting cards in a Las Vegas casino, it can tip the odds in your company's favor. Remember that even though India is one of the most diverse, impoverished, and schizophrenic nations on Earth, Indians themselves are shrewd consumers, demanding high functionality at low cost. Some corporate giants, such as Wal-Mart, have entered India with their own market strategies; let's explore Wal-Mart's past and future, successes and failures, in the Indian market.



(Amin, 2009)

Wal-Mart in India

Unlike other big companies such as McDonald's and Coca-Cola, Wal-Mart didn't enter the Indian market until fairly recently, when in late 2006 it signed a collaborative deal with Indian corporate titan Bharti Enterprises. The company opened its first store in the holy city of Amritsar, in the state of Punjab. However, because FDI in multi-brand retailing (Wal-Mart's specialty) is not yet legal, Bharti-Walmart entered the market as a cash-and-carry wholesale model, where it sold its products to other smaller retailers as well as small businesses. The lucrative new partnership is equally advantageous for both parties; Bharti owns the stores, and Wal-Mart runs the logistics, procurement, and storage aspects of the venture. This gives Bharti

much-needed technological assistance and innovation (benefitting its other ventures as well) and Wal-Mart its first window into India. (Matusitz & Reyers, 2010)

Since Wal-Mart has only been operating in India for three years, it's difficult to judge its successes and failures in the Indian market. Still, it's hard to imagine that the industry giant hasn't learned from previous mistakes in other parts of the world. Wal-Mart's venture in Germany, for example, failed because it tried to superimpose the same corporate culture of low wages, EDLP (Every Day Low Pricing), extreme pressure on suppliers, and aggressive anti-union policies that worked so well in the suburban US. What's worse, German consumers also considered the famous Wal-Mart greeters to be intrusive and strange. (Matusitz & Reyers, 2010) Wal-Mart learned that a company can't just glocalize its products; it must also glocalize its corporate culture.

Because of its policies, Wal-Mart remains a tremendously polarizing brand in the US. Some praise its remarkable economies of scale and ability to provide consumers products at the lowest possible cost, while others scold the company for its unfair treatment of employees, outsourcing, and devastation of local small businesses. Similar dynamics appear in the Indian market as well.

Indian consumers are flocking to Bharti-Walmart stores. Even though the law prevents selling directly to consumers, one provision states that up to three family members and friends of those small business owners and retailers with membership cards can shop there. (Matusitz & Reyers, 2010) Many are willing to go to great lengths to take advantage of Wal-Mart's low prices. However, it's not just consumers clamoring for more Wal-Mart; Indian farmers, long exploited by the nation's vast web of intermediaries, could benefit the most. According to auditing firm KPMG, Indian farmers receive only a third of the price paid at retail as opposed to

two-thirds in countries with more organized retail sectors. Furthermore, 25-30 percent of fruits and vegetables and 5-7 percent of food grains in India are wasted because of inadequate supply chains and infrastructure. (*KPMG*, 2010) As a company known for its super-efficient supply chains, Wal-Mart will almost certainly invest in, or at the very least expedite, infrastructure development in places which urgently need it. The Indian government's current ruling Congress Party-led coalition agrees, announcing in November 2011 that it will permit 100 percent foreign ownership in single brand retail and 51 percent in multi-brand retail. (*The Economist*, 2011)

Naturally, these proposed reforms did not come without significant backlash from India's 12 million local mom-and-pop retail stores, called *kiranas*. The Indian retail market has long been dominated by kiranas; even today, less than ten percent India's \$450 billion retail market is organized. (*The Economist*, 2011) Although this number is rapidly increasing, it would be dangerous to assume that Wal-Mart would dominate the kiranas the same way it dominates local businesses in other countries. Like many consumers throughout the world, Indian consumers feel an emotional attachment to their local store; they often know the owner personally, and receive free advice as well as free home delivery. Kirana owners also have more knowledge of native preferences. In India, Wal-Mart will have to compete with local traders on **their** terms.

Unfortunately for Wal-Mart, those 12 million kirana owners also have very powerful friends in both national and state governments. The main opposition party, the nationalist BJP (Bharatiya Janata Party), has been invoking the nation's anti-colonial past to stir up anger against the new reforms. Many believe the government will yield to the pressure and simply reverse course; yet even if reforms are enacted by the national government, there are no guarantees that individual state or local governments will adopt them as well. In fact, out of 53

politicians in charge of cities with a population of at least one million, 28 have announced that they intend to block the reforms. (*The Economist*, 2011) Of course, this doesn't mean that Wal-Mart will have to pull out of India; it will just have to continue wholesaling longer than expected.

While these challenges may seem daunting, Wal-Mart and the rest of the organized retail sector certainly have the capacity to overcome them. Economic and cultural trends are shifting Wal-Mart's way; more and more of India's urban middle class are living in new high rises and consequently closed off from easy street level shopping at kiranas and pavement stalls. They, like their rural counterparts, desire a wide range of choices, convenience, and high quality products. The company's Indian stores have already adapted to consumers' tastes, stocking 90 percent of its shelves with Indian products. Wal-Mart is also taking into account India's vegetarians, who make up about 70 percent of the population, by appropriately separating and labeling their vegetarian products. (Matusitz & Reyers, 2010) Also, ironically enough, their infamous treatment of employees is a non-factor in the minds of Indian consumers; in truth, Wal-Mart currently pays its Indian employees more than the average kirana. Whether that continues in the future remains to be seen, but one prediction is a near-certainty: Wal-Mart won't be leaving India anytime soon.

Additional Barriers

Several barriers to investment in Indian retail have already been discussed: poor infrastructure, firmly entrenched local competition, and especially organized political opposition. Yet there's one aspect of doing business in India that every company, Wal-Mart included, must accept. It's a problem which plagues most developing countries, but has become a hot topic of discussion in India today. That problem is **corruption**.

First, to be perfectly clear, this is not an attack on the moral character of the Indian people; just because more under-the-table deals are struck does not mean that the people negotiating them are more intrinsically corrupt. Take the Indian transportation system, for example. Railway tickets in India are heavily subsidized by the government and set at a very low price. Even when demand far exceeds supply, such as during holidays and festivals, ticket prices are required to stay the same. Naturally, those willing to spend more for tickets will seek out a railway employee willing to sell tickets under the table. This common practice is certainly illegal, but does that also make it unethical? After all, if you were to purchase a plane ticket at the last minute or during the holidays in the US, the airlines would charge far more money.

Corruption in India can range from scalping railway tickets all the way to massive multi-billion dollar scandals. The first such scandal came in 2010, when India attempted to answer China's extravagant 2008 Beijing Olympics by hosting the Commonwealth Games in Delhi. Soon after the games opened though, it became apparent that massive fraud had occurred; buildings had been poorly constructed with substandard materials, and several contractors were subsequently arrested. (Deb, 2011, p. 38) The second scandal shook the nation even further.

Prosecutors alleged that in 2008, when the government auctioned off 2G bandwidth licenses, the Indian telecommunications minister manipulated the bids to ensure that the licenses went to friends and associates at prices far below market value. The exact amount stolen remains unclear, but it is estimated that the public lost close to **\$40 billion**. (Deb, 2011, p.39)

Retail companies in India likely won't be involved in multi-billion dollar catastrophes such as those, but there is a strong chance they will be forced to deal with corruption directly. The most common method of bribery solicitation takes place during inspections. According to Enterprise Surveys, 17.4% of the 1,948 stores surveyed either paid a bribe or were asked for one; yet, this statistic is misleading. Larger stores, such as Bharti-Walmart's cash-and-carry stores, are targeted more often for bribery since they are inspected much more frequently than the small kiranas. Of all the inspections recorded by Enterprise, 44% culminated in a bribe or solicitation. (Amin, 2010, p.4) One strategy to alleviate corruption concerns is selecting an advantageous location. However, finding the right state is difficult; there's no correlation between common indicators such as income to the level of corruption, so more comprehensive research and scouting is necessary.

Corruption in India takes many forms, but it's important to remember that much of it is a product of the nation's socialist past and not a reflection of the nation's character. Many Indians, especially the middle-class, are actively campaigning to rid the country of corruption and improve the lives of their fellow citizens. One such anti-corruption activist is a Gandhian figure named Anna Hazare. Like Gandhi, he has also used fasting as a weapon to achieve his goals. Hazare's solution to rooting out corruption in India is the creation of a new position called the Lokpal, a government watchdog, with the power to prosecute and punish corrupt politicians and government employees. (Yardley, 2011) After a heavily publicized fast in April 2011 that

drew millions of protesters to the streets, the government finally agreed to let Hazare's team help in drafting the Lokpal bill for Parliament. However, this type of bold action did not come without repercussions; instead of sending the Hazare-inspired Lokpal bill to Parliament, the government sent a weak, watered-down version which allowed the Lokpal position to only investigate 0.5% of politicians and civil servant. The strong government anti-corruption watchdog was effectively toothless. (Yardley, 2011)

Hazare and his followers were furious. When he announced in August 2011 that he would fast until the stronger version of the Lokpal bill was sent to Parliament, the government responded simply by throwing him in jail. Massive protests across India followed; then, after 7 days (and still fasting), the government relented and Hazare was allowed to leave the jail and continued his fast at a nationally televised rally. Finally, on August 28 the Lokpal bill was passed in India's Lower House of Parliament, and Hazare discontinued his fast. Still, the Lokpal bill remains in political limbo until the next session of Parliament. Until then, Hazare has said he will continue to aggressively campaign against corruption and fast if necessary, proclaiming, "I can die but I will not bend". (Yardley, 2011)

Anna Hazare's massive popularity is a crucial indicator of India's political, economic, and cultural transformation since its inception more than sixty years ago. The older generation's mantra of "nothing will ever change" and "no one can touch the powerful" has been replaced by the younger generation's cry of "I AM the change". Social media now allows millions to spontaneously protest across India to convey their message to their democratically elected leaders in government. Most significant, though, is the remarkable diversity of these protesters. They come from different religions, different ethnicities, and different socio-economic

backgrounds; students, farmers, businessmen, teachers, rich and poor, Muslim and Hindu have all risen up to declare their freedom from corruption.

Conclusion

With its remarkably diverse population, gorgeous landscapes, and beautiful cultures, India is certainly one of the most extraordinary yet perplexing nations on the planet. Surveying the massive technology parks of Bangalore, the bustling city streets of Mumbai, or even the rural villages newly connected to the global economy, past leaders such as Gandhi might not even recognize their own country. Indeed, India has come a long way since it first gained its independence over sixty years ago. Although Gandhi's generation would likely disapprove of the consumption habits of the new, globalized generation of Indians, the results of India's economic liberalization two decades ago speak for themselves. Liberal policies have lifted hundreds of millions of Indians out of desperate poverty, and many to the new, emerging middle class. India's future is even brighter.

Like the US, though, Indians have many differences and distinctions which businesses must recognize in order to properly market their products. Different generations, or age cohorts, have different attitudes and values, and most importantly consumption habits. Each state has its own unique political, economic, and cultural identity. Within those states, urban and rural districts vary widely in commercial activities, social norms, and level of infrastructure. Within those districts, the socio-economic makeup of its citizens can be drastically dissimilar; it

is not uncommon to see wretched slums juxtaposed to a towering luxury hotel. Understanding the distinguishing attributes of Indian consumers is central to success in India.

After examining their consumers, businesses must also examine, re-evaluate, and glocalize their products. For this task, simply follow the four step process of analysis, adaptation, positioning, and innovation. Instead of broadly analyzing the consumption behavior of the nation, the state, or even the city in which your business is operating, go further. Study the individual district, town, even village within the target area. Use that valuable information to adapt and position the product to your target market. Ask consumers what the barriers are to buying your product, and find an innovative, cost-effective solution. This process is definitely more tedious and expensive than Internet research, but it is well worth it; just ask Kellogg's.

One company that avoided the mistakes of Kellogg's is retail giant Wal-Mart. Though not legally permitted to own its own Indian mega-stores, Wal-Mart's joint venture with Bharti Enterprises has proved mutually beneficial. Many consumers are clamoring for Wal-Mart's plethora of inexpensive goods. Even farmers, tired of losing precious rupees to intermediaries and poor supply chains, await the company's expansion. However, Wal-Mart now faces arguably its toughest opposition yet. Smaller, local kirana corner-stores still dominate Indian retail and are prepared to go to great lengths to keep Wal-Mart out of India. Their collective political influence is currently preventing the company from retailing its products directly to consumers instead of wholesaling as well as fueling anti-Wal-Mart sentiment among voters. Yet despite the daunting opposition, Wal-Mart is still poised for success in India. The company is actively glocalizing its stores and catering to its consumers by stocking its shelves with local products, separating vegetarian products, as well as other customer-centric initiatives. Any retail business looking to expand into India should look to Wal-Mart's shining example of success.

Retail businesses in India unfortunately must contend with the additional barrier of corruption. Large stores especially should be fully prepared in the event of solicitation by government health inspectors. Businesses must also understand the wider issue of corruption in India in order to fully grasp the mentality of its consumers. Why are anti-corruption activists such as Anna Hazare so popular in India today? There have been countless scandals in the nation's tumultuous past, but why are they so important now? Surely there are a multitude of factors, but the rise of an educated, informed middle class is without a doubt the driving force behind the anti-corruption movement.

In spite of the conforming influences of globalization, India remains a fascinating, perplexing, and mysterious place. These pages have demonstrated how to understand, target, and adapt to the Indian consumer, yet those are not the only goals. The main point is to encourage those interested to look past the statistics, charts, and graphs of Consumer India and develop a genuine interest in the unique, mesmerizing culture of India itself. That passion and curiosity would be a **real** business advantage.

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