

Dear All

My weekly learnings today is about consumption, a key principle for consumers and businesses and government. Consumption is something that most governments, private enterprises and individuals crave for. When consumption picks up, then we say economic activity is up. My curiosity on consumption came watching the US consumer and what he/she consumes. So, here goes my set of learnings:

1. Consumption is a fundamental starting point of the economy. $GDP = \text{Private consumption} + \text{Government Expenditure} + \text{Investment} - \text{Net exports}$ (exports minus imports, in some cases this is negative). For most countries consumption is between 45 to 85 % of their GDP.
2. From an economic view point, consumption determines minimum wage rates, tax rate determined on habits of people.
3. If you see the average US consumer, he/she seems to consume so much more of everything – food, cars, petrol, flights, sports broadcast, movies, music, the list is endless.
4. In marketing we always looked at per capita consumption is a country vs the per capita GDP of the country. It taught us when there would be a take-off for a particular category of goods or service. I remember using it well and also remember using it very badly. For example, Unilever kept telling me that hair conditioners take off after \$ 1500 per capita and we invested in it and failed big time. That was because in India we had the oiling habit and that prevented women from using conditioners, it is still a nascent market in India.
5. From a marketing viewpoint, consumption is the satisfaction of human wants. As Adam Smith said “consumption is the sole purpose of all production”
6. Is there a concept of over consumption? Yes, when a country consumes more of something that’s not needed, then the government steps in with taxes. Invariably they are called sin taxes, cigarettes is an example, sugar drinks like soft drinks is another example. These two categories are taxed heavily across the world because the governments feel that the government expenditure on health to meet the outcomes of consuming these categories is high. Hard liquor is also taxed in many countries but that’s because of social pressure like violence and wife beating when men get drunk or throw away all their income into drinking.
7. For me, there are many factors that come into the mix – like income, like attitude, like social security, like confidence. Consumers spend when they have confidence of a better tomorrow, else they don’t spend. In every crisis, consumers end up saving. In this pandemic, consumption has been very different. The combined government stimulus across the world has been close to \$17 trillion which is nearly 20 % of the world GDP of about \$90 trillion in a normal year. However, people could not spend on services since most services like airlines, hotels, restaurants, holiday destinations were closed. They ended up spending more on products, specifically technology products and also on health/fitness products and services online.
8. When I was marketing manager on tea brands, we tried everything in the book to increase consumption, like tea bags, flavored tea etc., in the end we didn’t succeed as per our expectations because coffee was seen as a more cool and happening drink by the young people. My lesson is that young people and their habits determines consumption down the line, electronics, games, content is a great example. No young person reads a newspaper, that’s why newspapers are dying, and newspapers might die with their older consumer base.
9. Culturally, many things add to the consumption psyche. For example, if you have breakfast in any American diner, then tea and coffee is virtually on tap, you can drink as many mugs of tea, coffee that you want. This is also experienced in revenue management in America, if a good or service is not selling, then they price it down to basic price and sell it off. If you travel a US airline in the US, before every flight they announce that window seats near the emergency exit are going free, normal charge is X\$ s but today we are giving it away.

10. I think seasons play an important role in the consumption of many items, especially apparel. America has four distinct seasons, so you get different styles, different marketing and finally different sales of old season goods. You will not get such consumption in an even climate country or region, here you will get occasion consumption like wedding, graduation etc. and not basic consumption. I think the concept of a second hand market plays an important role, the attitude to use and dispose plays a role, the tradition of hand me down plays a role!
11. Innovation flourishes when there is a consumption economy. People use a car for four to seven years but every year there is a new model of car launched in the USA. Packaging can play a great role in driving consumption. One of the lessons the emerging world taught the developed world is the concept of sachets, making. A product available at the affordable price drives both penetration and consumption. The same lesson was repeated in telecom market from emerging economies. I believe the concept of consumption will go a big change with e commerce, since a subscriber can now be sold anything as long as the marketer has access to the consumer.
12. I think the USA and Europe dominated the old economy for consumption, China is dominating the new economy for consumption and usage, good examples are technology, online content, see the various apps coming from China, luxury goods, EV etc.

My summary is that income is a necessary condition but not a necessary condition to drive consumption, there are many personal and cultural attitudes that come into play.

Feedback welcome

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