The new market *shehers*

Tapping potential beyond the metros

Ernst & Young
Quality In Everything We Do

Introduction

Domestic demand and consumption have been the key drivers of economic growth in India. Until a few years ago, most of this demand was from metropolitan cities, with the top eight cities accounting for almost 40% of the total demand.

Ernst & Young's report, "*The Dhoni Effect: Rise of Small Town India*," released in March 2008, found that whereas tier 2 and 3 cities accounted for a large proportion of India's consumption, media spends were skewed in favor of the metros. This report is an update of our March 2008 analysis. It attempts to answer two key questions:

Consumption: How important are non-metro urban markets as far as India's consumption in the present scenario is concerned?

Marketing spends: How are marketers restructuring their budgets to take advantage of the new urban consumer?

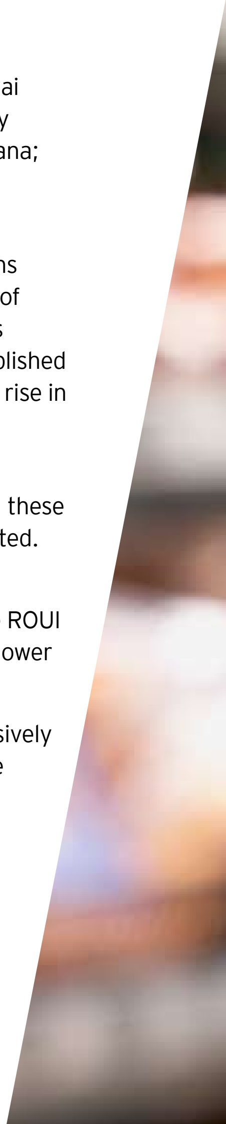
For the purpose of this research, India was divided into four geographical categories — the top six metros (Mumbai, Delhi, Bengaluru, Hyderabad, Chennai and Kolkata); the Key Urban Towns (KUTs), which are the 22 cities immediately following the metros in their market potential, e.g., Amritsar, Surat and Ludhiana; cities in the rest of urban India (the ROUI) and the KUTs, e.g., Kota, Jalandhar, Jabalpur) and rural India.*

Our research suggests that consumers in the KUT exhibit consumption patterns that are similar to those in the metros. There is an uptake in the consumption of premium brands and services in the KUT. Furthermore, consumers in the KUTs show an increasing preference for the premium products and services of established mass brands. For instance, the sale of LCD TVs and wellness services is on the rise in the KUTs.

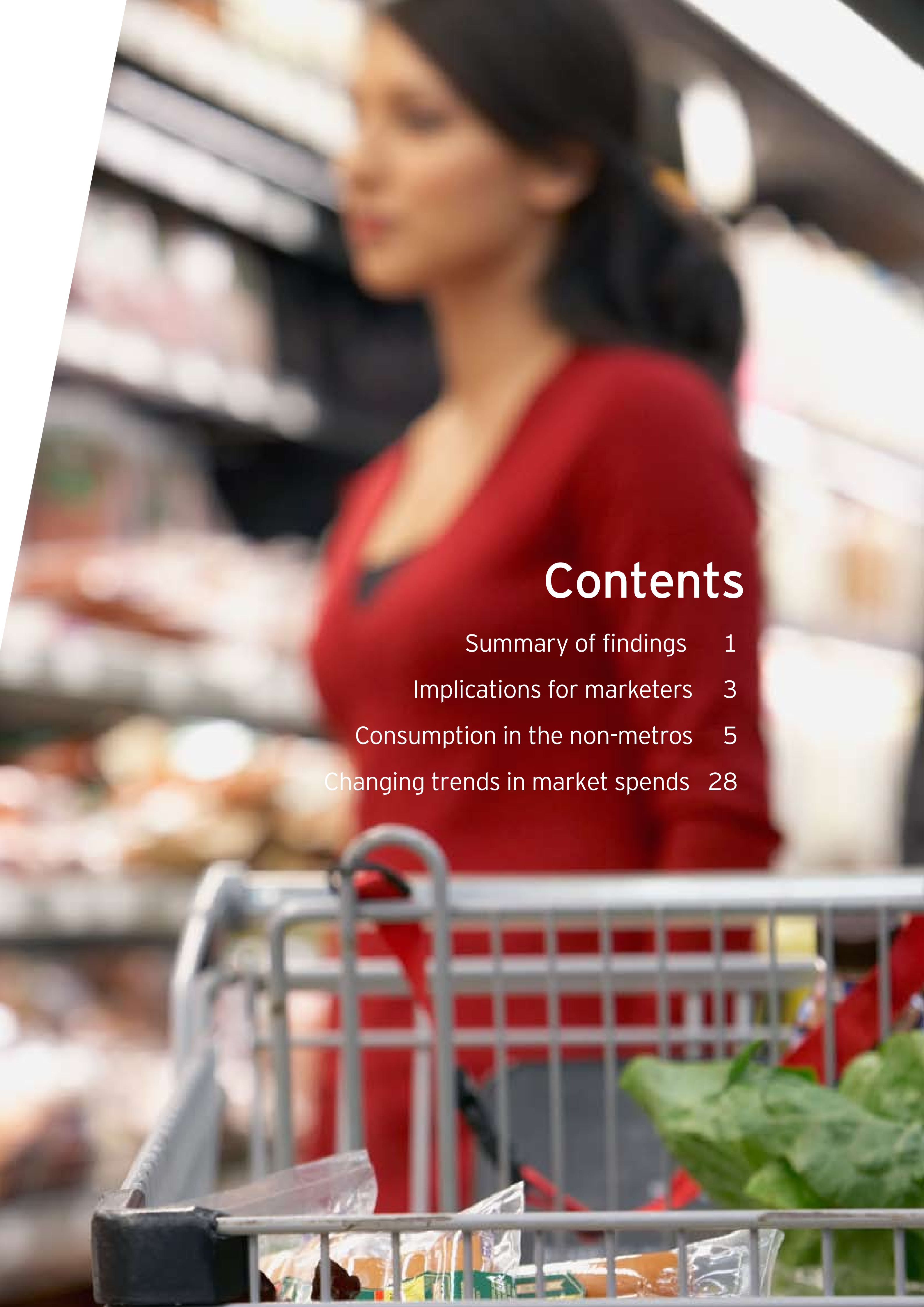
In addition to the KUTs, the ROUI are becoming increasingly important as consumption centers. In the case of consumer durables and FMCG companies, these are the towns that are driving growth, as they are still relatively underpenetrated.

Thus, whereas the metros and the KUTs are driving growth in later-stage consumption (higher transaction value products and discretionary goods), the ROUI are driving growth in early-stage consumption (necessities and products with lower transaction value).

Marketers have taken cognizance of this new urban consumer and are aggressively targeting these regions, which has resulted in a shift in media spends from the metros to the non-metros.



*refer appendix



Contents

Summary of findings

- The share of the KUTs and ROUI in India's urban consumption has increased significantly and is now more than 70%.
  - The benefits of India's buoyant economic growth are not restricted to its major metros any more, and a more inclusive consumption model seems to be in place. The top eight cities accounted for almost 40% of the country's domestic expenditure a few years ago. However, the top six metros now contribute to only 27% of its urban consumption.
  - Due to increasing affluence and higher population in the KUTs and the ROUI, markets are larger outside of the metros.
- The consumption choices made by consumers in non-metros increasingly mirror the those made in metros, but advertisers continue to pay a premium for metro markets.
  - Product penetration does not differ significantly between the metros and the KUTs. Although the ROUI towns are relatively underpenetrated in key consumer categories, e.g., in FMCG and consumer durables, they are growing the fastest.

  - There has been a significant uptake in the leisure and lifestyle spends of consumers in the KUTs as well as the ROUI, with the KUTs driving growth in the wellness, travel and entertainment categories.
  - Although consumers in the metros and the non-metros seem to make similar consumption choices, media ad rates, especially for print, OOH media and radio, continue to be much higher in the metros.
- Media spends are moving toward non-metros, with the KUTs and the ROUI increasing their share of advertising spends and volume.
  - There is a clear shift in advertising spends and volume toward non-metro urban markets. The KUTs and the ROUI potentially command 40%–50% of the country's urban advertising expenditure — an industry estimate had approximated this share to be 30%–35% in 2007. Since media rates are much lower in the metros, the shift in the "volume" of marketing spends is even more significant than the absolute rupee shift.

Implications for marketers

Marketers should upsell to consumers in the metros and the KUTs and focus on new customer acquisition in the ROUI.

Marketers should deploy a combination of upselling and new customer acquisition strategies across urban India, with the focus being more on upselling (or high-end product selling) in the metros and the KUTs as well as the acquisition of new customers in the ROUI. For instance, telecom operators should focus on acquiring new customers in the ROUI, while in the metros, marketing strategies need to focus on increasing the average revenue per user (ARPU) by increasing spends on premium and value-added services such as ISD, roaming, internet and data transfer services. Similarly, mobile phone manufacturers should target metros to acquire customers who will buy their high-end phones or secondhand sets. Cheaper handsets with basic functionality should be advertised more in the ROUI.

As non-metro urban consumers gain in importance, marketers should customize the content of their messages to appeal to such customers.

- Given the heterogeneous nature of content consumption, marketing campaigns should be increasingly more localized in their language and content offerings.
- New audiences require new messages. For example, the marketing imperative for a campaign directed at a first-time user of a product in the ROUI will be "education," whereas the focus will be on "differentiating qualities/reiteration of brand superiority" when a campaign is intended for existing users of products or brands.

The marketing mix deployed should also be optimized, keeping in mind its content, purpose and cost effectiveness in reaching its target audience.

In view of lower advertising rates in the non-metro editions of newspapers, marketers can reach consumers in the KUTs at a lower cost as compared to those prevalent in the metros. As consumption choices in the metros and the KUTs are becoming increasingly similar, marketers need to revaluate the concept of paying a premium for their metro target audiences.

With the advent of ROUI and Rural India users as new consumption classes, below-the-line marketing should be deployed more aggressively, since it is an effective way of educating first time users.

Hindi and regional print media score high on reach and measurability and are more cost-effective in reaching the small town consumer, as compared to English dailies.

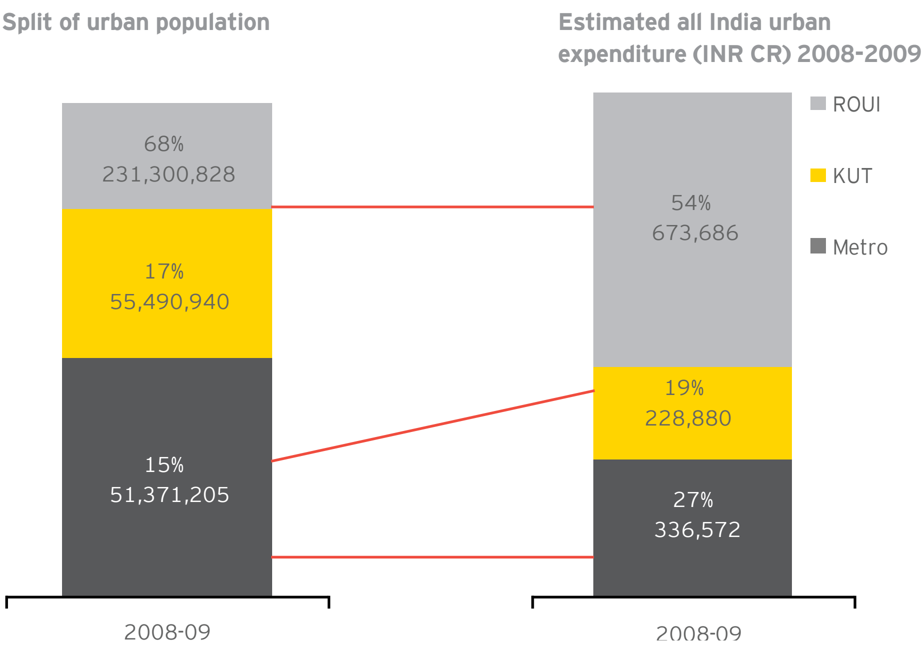
Multi-city radio stations should also be used more as they allow messages to be customized to the preferences and needs of target audiences. However, measurement is a significant hurdle. Currently, radio reach is only measured for the top metros, as compared to other media such as print and television, which are measured across multiple cities.

With 500 million mobile users, mobile advertising is a medium that can be more effectively deployed for person-to-person marketing. The challenge will however lie in identifying the right mobile advertising model that is both scalable and effective.

As consumption choices in the metros and the KUTs are becoming increasingly similar, marketers need to revaluate the concept of paying a premium for their metro target audiences.

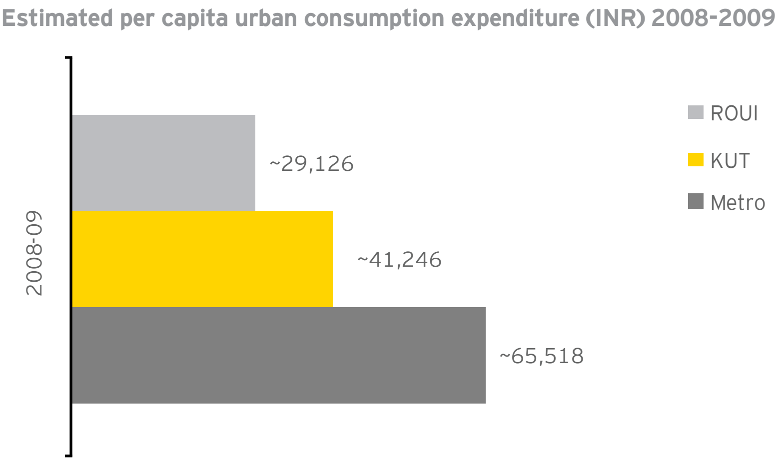
Consumption in non-metros

The non-metros account for 73% of India's urban consumption.



Source: Indicus Analytics, Market Skyline of India, 2008, Ernst & Young analysis

The KUTs and the ROUI contribute to around 73% of India's urban expenditure.



Source: Indicus Analytics, Market Skyline of India, 2008, Ernst & Young analysis

Although absolute consumption is higher in the KUTs and the ROUI (combined) due to their large populations, per capita consumption is highest in the metros.

The KUTs and the ROUI have grown significantly in key consumer categories.

YOY growth – 2008-2009			
FMCG penetration	Metros	KUT	ROUI
Instant noodles – purchased (6 months)	11%	20%	8%
Ketchup/sauces – purchased (6 months)	1%	5%	1%
Jam – purchased (6 months)	2%	18%	14%
Fabric bleaches – purchased (6 months)	-3%	30%	28%
Branded baby oil – purchased (6 months)	1%	21%	4%
Branded soup – purchased (6 months)	35%	26%	45%
Branded disposable diapers – purchased (6 months)	20%	20%	-9%

YOY growth – 2008-2009			
Consumer appliances	Metros	KUT	ROUI
Refrigerator – ownership	4%	9%	7%
Washing Machines – ownership	7%	10%	12%
Car/Van/Jeep (own or provided by employer) – ownership	6%	11%	12%
Microwave oven – ownership	18%	21%	8%

YOY growth - 2008-2009			
Consumer electronics	Metros	KUT	ROUI
DVD player – ownership	19%	33%	28%
Computer at home – ownership	6%	21%	21%
Digital camera – ownership	16%	37%	26%

KUTs and ROUI registered almost a ~2X growth in consumer electronics and appliances as compared to metros

KUTs and ROUI registered almost a ~2X growth in consumer electronics and appliances as compared to metros. Our research indicates that whereas the KUTs and the ROUI are growing across categories, this growth is driven by upselling in the KUTs and tapping consumption at the lower end of the pyramid in the ROUI.

Another perceptible shift in consumption has been the increasing **adoption of branded products by consumers in the KUTs and the ROUI.** Our primary interviews indicate that non-metro urban consumers are likely to be more loyal, since choices are not as wide in such towns as compared to the metros.

Early stage consumption in the metros and the KUTs evening out

Consumer durable penetration (2009)

	Metros	KUT	ROUI
Refrigerator – ownership	45%	44%	26%
Car/Van/Jeep – ownership	8%	7%	3%
DVD player – ownership	25%	25%	14%
Computer at home – ownership	11%	9%	4%

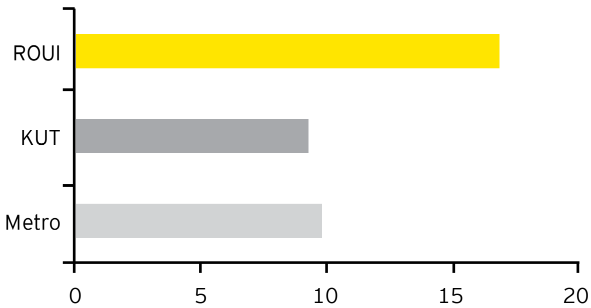
FMCG penetration (2009)

	Metros	ROUI
Coffee – purchased	35%	20%
Ketchup/sauces – purchased	21%	8%
Jam – purchased	16%	6%
Fabric bleaches – purchased	8%	4%

Not only do the KUTs and the ROUI account for more than 70% of India's urban consumption, they are also increasingly displaying purchase behavior that is not dissimilar to that of consumers in the metros.

The KUTs and the ROUI have grown significantly in key consumer categories over the last two years. As of now, the KUTs are almost at par with the metros in penetration of key consumer goods, but the ROUI are still underpenetrated, which clearly indicates significant future opportunity.

Expected annual percentage of market growth: 2004–2015



Source: City Skyline of India by Indicus Analytics, 2006

With the consumption of key consumer products (FMCG and consumer durables) evening out in the metros and the KUTs, the ROUI is expected to grow the fastest in the future.

There is a considerable market outside the metros even in the lifestyle and leisure categories.

Consumption of lifestyle and discretionary products across urban India:

Figures in millions	Urban India	Metros	KUT and ROUI	% cont to total urban India
Direct to Home (DTH)	4.6	0.7	3.9	84
TV - LCD/Plasma/HDTV/Proj. TV	2.1	1.1	1	47
Instant noodles – purchased (6 months)	44.4	18.6	25.8	58
Travel abroad	1.5	0.6	0.8	56
Digital camera - ownership	5.5	2.6	3	54

- KUTs and ROUI display purchase behavior similar to that seen in the metros.
  - Around 84% of DTH subscribers are in the KUTs and the ROUI.
  - ~ Around 50% of high-end TVs are sold outside the metros.
- The KUTs and the ROUI follow trends set by metro consumers.
  - Ownership of computers in the KUTs and the ROUI
  - Increased international travel by people living in the KUTs and the ROUIs
  - Console gaming becoming increasingly popular

Although the penetration of lifestyle products and services is still higher in the metros, there has been an uptake in the KUTs and the ROUI. According to our research, on-metros now account for > 50% of the market for lifestyle products, with the KUTs moving up the high-end consumption value chain faster than the ROUI.

Case study: Samsung India Electronics Limited

About the consumer durables industry in India

- The domestic consumer durables market is estimated at 300–350 billion and includes appliances such as refrigerators, washing machines, air conditioners, microwave ovens and dish washers, as well as electronics such as TV sets, DVD and VCD players and audio systems.
- Propelled by a growing middle class population, changing lifestyles and rapid urbanization, the Indian consumer electronics industry is expected to grow at a rapid pace of 10%–12% over the next few years.
- The relatively low penetration level of consumer electronics goods, coupled with an increasing preference for comfort and luxury goods, is attracting foreign as well as domestic players to the industry.

About Samsung

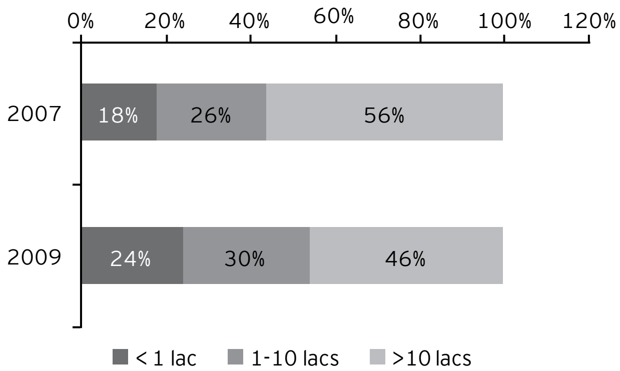
- Brand Samsung enjoys an awareness level of more than 65% and a positive opinion of more than 80% in the country today.
- Samsung has a market share of around 25% in most of its product categories and has a network of more than 8500 retail points for its products across India. Its technology leadership, product design and innovative marketing have all contributed to make the brand a household name in the Indian market. Samsung commands a 40% market share for its high-end TVs.

Target group

- Given the high penetration levels of consumer electronics in the metros, the majority of the new customers are mainly from smaller towns.
- As new and enhanced products are introduced, the middle class, whose purchasing power has increased exponentially in smaller towns, has become the target customer for consumer electronics.

- The revenue contribution of non-metros is increasing.
  - The share of the metros and large cities in Samsung's overall revenue has clearly declined from 2007. Furthermore, the share of under 100,000 population towns (comprising the ROUI) in the company's total revenue has increased at 33% over a two-year period.
  - The increasing share of under 100.000 population towns in the overall revenue pie can be attributed to a number of reasons — rising aspirations and the influence of larger towns on the demand side and the launch of new brands, combined with aggressive sales targets, on the supply side. Going forward, the <100.000 towns will be critical for Samsung's growth.
- The under 100.000 town class has a share of around 24% in the color television segment. Furthermore, this segment contributes 10% of sales in the high end television market and is also showing the maximum growth in the LCD television market.

Revenue share by town class (2007-2009)

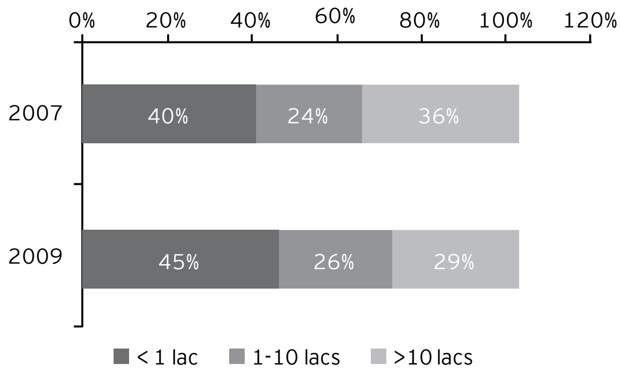


Source: Primary interviews by EY

The share of non-metros in the number of Samsung dealerships has increased significantly.

- The Samsung dealership network has increased in number from branch offices in 20 towns in 2007 to 50 towns in 2008.
- It has now stabilized at branch offices in 40 towns.

Dealer network by town class (2007-2009)



Source: Primary interviews by EY

Marketing strategy

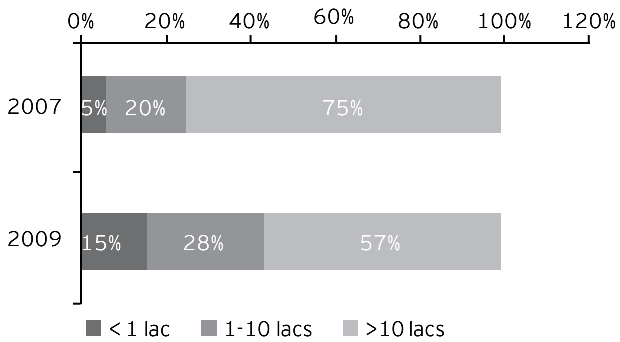
- Samsung has aggressively used innovative techniques to promote its brand over the years. This has helped the brand become a household name in India today.
- The company's above the line (ATL) spend and below the line (BTL) spend mix in larger cities with populations exceeding 100,000 is 80:20, respectively, whereas it is 60:40, respectively, for other towns and cities.

ATL advertising — the share of non-metros is increasing.

- The company's ATL promotional spent has increased significantly for less than 100,000 population towns from 5% in 2007 to 15% in 2009.
- This highlights a shift in Samsung's marketing strategy which is now focused on mid-size and smaller towns in the country.

There is a clear shift in ATL and BTL marketing activities toward the non-metros, which indicates the increasing importance of these regions for advertisers.

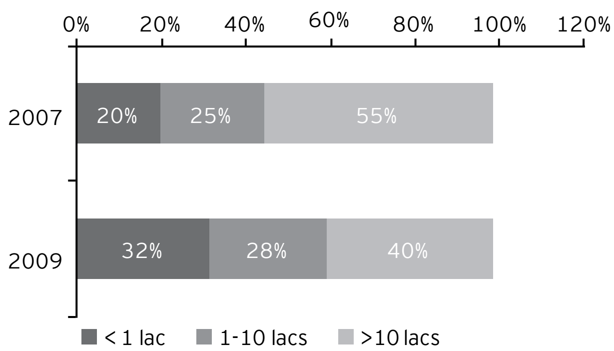
Above the line (ATL) spend (2007-2009)*



Source: Primary interviews by EY

BTL advertising

Below the line (BTL) spend (2007-2009)*



Source: Primary interviews by EY

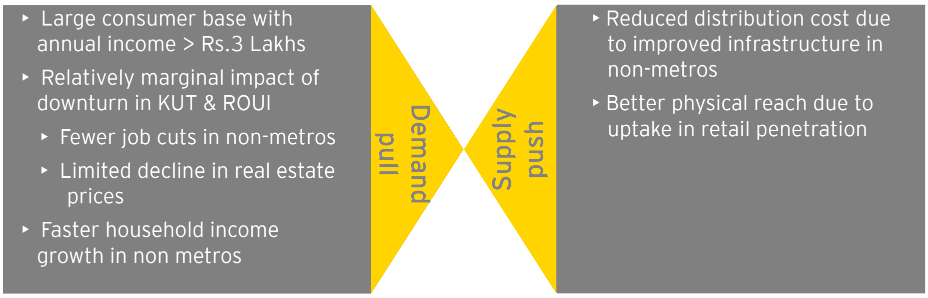
- Samsung has carried out over 170 "Dream Home Road Shows" in metros and smaller cities to increase consumer awareness of its products and technologies.
- Under Its visibility initiative, the company has put up 7000 glow signboards in more than 40 towns in the country. Of these 7000 glow sign boards, around 30% were installed in the less than 100,000 population towns, 50% in 100,000 to 1 million population towns and the remaining 20% in over 1 million population towns.
- Furthermore, under its Kranti initiative, the company has invested in refurbishing display stands in more than 3500 outlets spread across the country.
- As the following chart illustrates, there is a clear uptake in the share of small towns in Samsung's BTL spends.

There is a clear shift in ATL and BTL marketing activities toward the non-metros, which indicates the increasing importance of these regions for advertisers.

*excludes TV, pertains to Samsung Consumer Electronics and Appliances (excludes mobile phones)

Consumption in non-metros: reasons for consumption uptake in non-metro urban markets

- Large consumer base with annual income > INR300,000
- Relatively marginal impact of downturn in KUTs and ROUI
- Fewer job cuts in non-metros
- Limited decline in real estate prices
- Faster household income growth in non-metros
- Reduced distribution cost due to improved infrastructure in non-metros
- Better physical reach due to uptake in retail penetration



Large relevant consumer base and increasing affluence levels in KUTs and ROUI

Access to a large and relevant target group is possibly the most important parameter for any marketer in its selection of markets.

Around 85% of India's urban population lives in non-metros. These towns have enjoyed the fastest household income growth in the country and have been relatively protected from the impact of the financial downturn. As a result, the purchasing power and ability to spend of consumers living in such towns has been significantly enhanced.

Marginal impact of downturn in KUTs and ROUI, as compared to metros

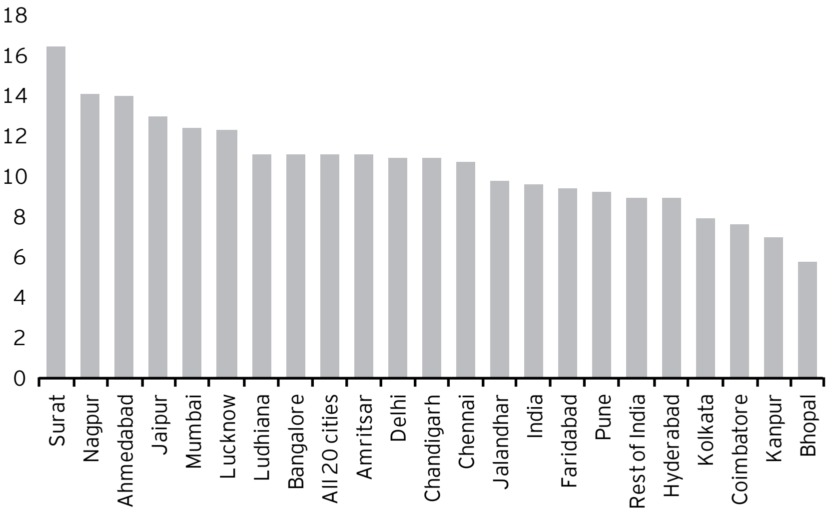
The impact of the downturn was felt more in the metros as compared to the KUTs and the ROUI. Our primary research with recruitment consultants indicates that fewer jobs were lost in non-metros during the downturn of 2008. Industry experts attribute this to the fact that in the growth years (2005–2007), most corporate organizations embarked on ambitious expansion plans, which created a disproportionate increase in the number of jobs in metros.

In addition, the value of real estate declined much less in the KUTs and the ROUI in 2008, as compared to the metros, according to real estate agents.

As the perceived income of consumers in small town India increased relative to their counterparts in the metros, the demand for products and services in tier 2 and 3 towns remained flat, whereas it fell in the metros.

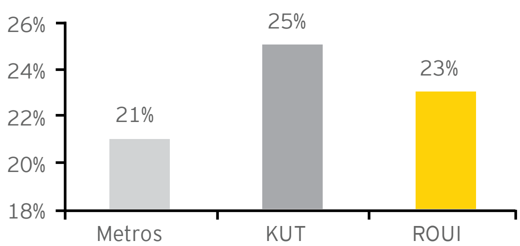
Faster household income growth, especially in relevant households

% of household income growth 2004-2008 yoy



Source: NCAER/FCR

Average growth in urban household income (%)



Source: Market Skyline of India by Indicus Analytics, 2008

Household income levels in metros such as Mumbai and Delhi and KUTs such as Chandigarh and Surat have crossed the INR 400,000 mark. This makes the income per capita in these cities well over double the estimates relating to all-India GDP per capita.

Reasons for increase in household income in non-metro India

Source: Euro monitor, news reports

Government investment: Tier 2 cities have lower labor costs and the Government makes large investments in them. According to the Planning Commission, in 2007, the Indian Government pledged US$29 billion to make tier 2 cities economic hubs by 2014. For example, the Jawaharlal Nehru National Urban Renewable Mission (JNNURM) was launched in 2005 to renew and modernize 63 cities in India.

The Government has also introduced various incentive-based policies to create Special Economic Zones (SEZs) and is providing tax holidays to companies that have set up their offices and facilities in these.

Not only has investment by the Government improved the infrastructure in smaller cities, making them viable for economic activity, it has also resulted in the creation of new employment opportunities and brought in its wake economic prosperity.

Manufacturing boom and the growth of small- and medium-scale enterprises

According to a Euromonitor report, tier 2 cities are being increasingly preferred by investors because of affordable real estate and availability of cheap labor in such cities. This has given an impetus to manufacturing and furthered the development of SMEs.

Expansion in business service outsourcing companies

According to Euromonitor, several cities in the KUTs, e.g., Pune and Chandigarh, have benefited due to the creation of jobs and enhanced per capita disposable income, which can be attributed to the presence of BPOs in these cities. For instance, Chandigarh had the highest per capita income in 2008. This was because of the high-paying BPO units that have been set up at the Rajiv Gandhi Technology Park in the city. Chandigarh's growth can also be attributed to the expansion of its tertiary sector, which comprises trade, the hotel and tourism industries, financial services, IT and software and real estate, which have contributed 76% to its GDP.

Consumption in non-metros: supply push

Enhanced infrastructure enabling reduction in distribution costs

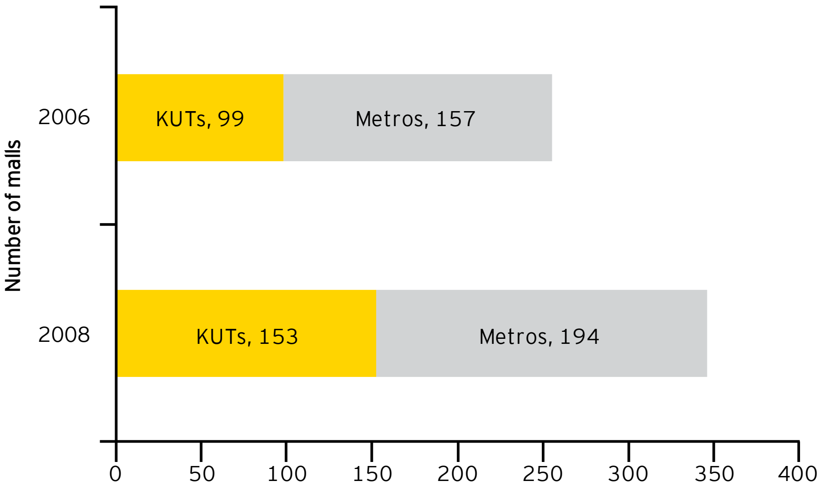
The key challenge for marketing beyond the metros, especially in tier 3 and 4 towns, has traditionally been logistics. Factors such as Government spending on infrastructure and policies encouraging private sector investment in airports and roads have helped to improve India's distribution setup and reduce the costs involved in reaching consumers in the KUTs and the ROUI, as compared to before.

Better physical reach due to uptake in retail penetration

Retail presence in the KUTs and the ROUI has also increased considerably and helped to make goods and services easily available to consumers in tier 2 and 3 cities. Organized retail chains and malls provide a one-stop shop for marketers to distribute their goods and services while covering larger areas. Yet the average outlet to population ratio continues to be smaller in the ROUI as compared to metros.

Retail players targeting smaller towns and rural areas are capitalizing on this opportunity and are providing an impetus to marketers' efforts to reach out to these areas through an established platform.

Growth in number of malls: Metros vs. KUTs (2006-2008)



Source: The City Skyline of India 2008, Indicus Analytics

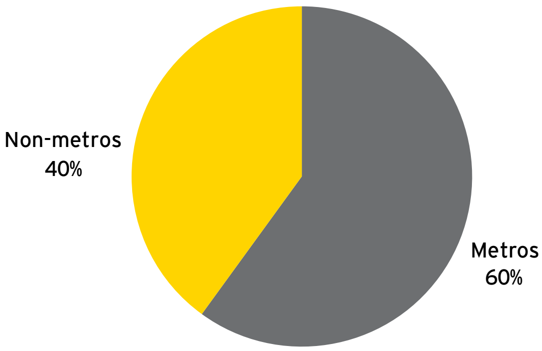
The ratio of malls in KUTs and metros is now evening out. But, the key statistic is %growth. Over a 2 year period, the % growth in the no. of malls in the KUT (55%) was more than twice that of the mertos (24%).

Case study: Nivea India

About the skincare market in India

- The premium skincare market in India is estimated to be around INR30 billion. It is growing at a steady rate of 15% –20% yoy.
- Nivea's key competitors include Olay, Garnier and Ponds. The segment has seen many new entrants in the recent past, including Dabur and P&G.
- In the skincare category, fairness creams and products based on traditional Ayurveda are growing rapidly.

Skin care category revenues (Nivea, Olay, Garnier, Ponds) in 2009:

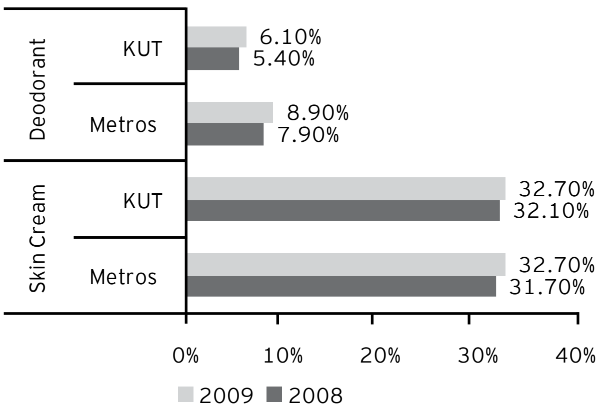


Source: EY analysis

About Nivea

- Nivea India is a 100% subsidiary of the global cosmetics and toiletries company Beiersdorf AG.
- Nivea has almost 70 products in its portfolio in India, spanning men's and women's face care products; men's grooming, cleansing and shaving products; as well as deodorants, lipcare products, cold creams and body lotions.
- The company is famous worldwide for its face cream — Nivea Crème, which was first launched in 1911.

Penetration of deodorant vs. skin cream



Source: IRS 2009, EY analysis

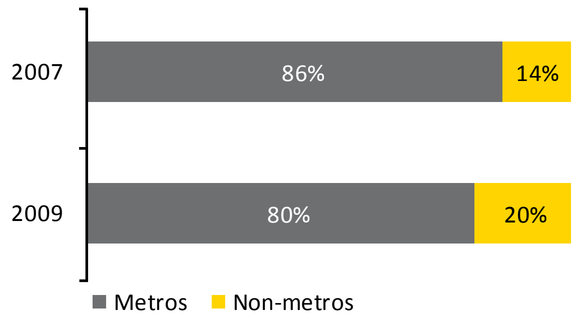
Target group

- Nivea, being a premium brand, mainly targets SEC A and B consumers in metros and KUTs.

Revenue contribution in skincare segment

- Compared to the category, Nivea gets a larger share of its revenue from metros (80%) vs 60% for the entire category.
- Yet, as the chart indicates, Nivea's share of revenues from KUTs is increasing, indicating the increasing importance of consumers in these geographies.

Revenue contribution skincare (2007-2009)

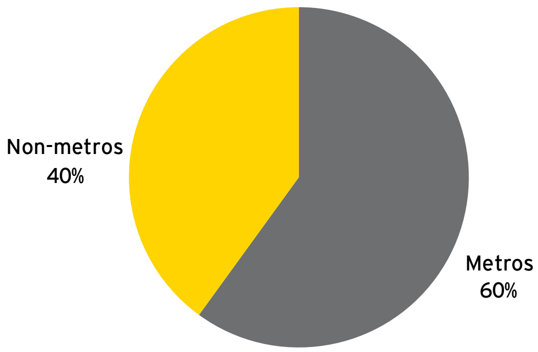


Source: Primary interviews by EY

Revenue contribution in deodorant segment

- In the deodorant category, only 60% of Nivea's total sales come from the metros. This is because the ROUI and KUTs are still relatively underpenetrated by it.
- Due to the contribution of the ROUI and KUTs, Nivea enjoys a market share of 6% –7% of the 4 billion deodorant market, as compared to a 3% market share of the much larger INR30 billion skin care market.

Revenue contribution deodorant (2009)



Source: Primary interviews by EY

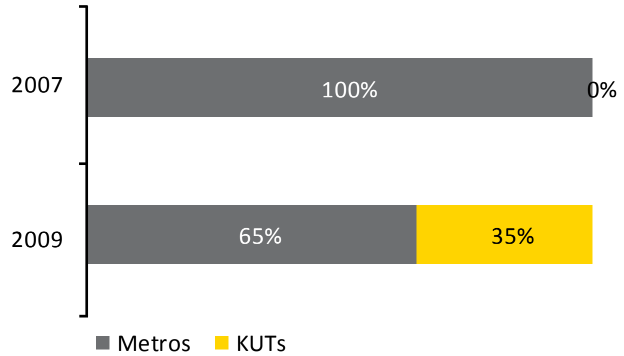
Marketing focus on non-metros

- Nivea uses a combination of national media and below-the-line activation to market its brand.

Shift in media spends from metros to non-metros

- In the last three years, the change in Nivea's BTL spends from 100% in metros (in 2007) to 65% in metros (in 2009) suggests a shift in the overall importance of non-metros in the brand's marketing strategy.
- There has also been an increase in the company's ATL spends in non-metro markets.
- Furthermore, given that 80% of Nivea's revenues still come from the metros, its allocation of 35% in the BTL category to non-metros suggests that it expects an increasing share of revenue from these markets in the future.

Nivea BTL spends: Metros vs. Key Urban Towns (KUTs)



Source: Primary interviews by EY

Luxury, lifestyle and leisure — on the rise in non-metros

While increasing disposable income has enhanced the ability of the ROUI and KUT consumer to spend, an enhanced retail presence and improved distribution has made products accessible to a larger cross-section of consumers. Increasing media reach has greatly contributed to the process of spreading knowledge about the existence of specific products and in building aspirations.

Around 40% of India's consumers of luxury products live in Mumbai and Delhi. However, luxury brands such as Moët Hennessy have expanded their reach beyond the metros to cities such as Pune, Chandigarh and Pondicherry. These new emerging markets are already powering several existing and new categories and helping marketers tap the mindsets of consumers.

Cities such as Surat, referred to as tier 2 by most people because they are not as large as the metros, nor as sophisticated as tier 1markets, were once considered conservative by companies selling beauty products. Yet, in Surat, women have surprised retailers and manufacturers with their desire to look good, their adventurousness in trying out new things, and their willingness to pay large amounts for beauty treatments and products. For example, in Surat's Kirti Laser Centre, treatments such as age correction, body sculpting and removing skin imperfections are becoming increasingly popular.

An interesting emerging trend is the ability and interest of consumers in KUTs and the ROUI to spend on lifestyle products and services. Growth in this category is primarily driven by the KUTs, according to our primary research:

- Wellness chains, fitness centers, gameplexes, beauty and fairness creams and telecom value-added services are examples of just some of the services consumers in the ROUI and KUTs are increasingly experimenting with.
- The grooming industry in India is seeing an unprecedented boom to the extent that beauty parlors are mushrooming in every nook and corner.
- UFO Moviez, the country's largest digital theater chain, has more than 1000 screens across India. Of these, 80% are in tier 2 and 3 cities, in sync with rising consumerism in these markets.

The uptake in air travel in non-metro India is another interesting example of how consumption patterns are changing. Data released by the Airports Authority of India (AAI) reveals that even though traffic growth on metro routes has been in the range of 30%–40%in 2007-08, it has more than doubled on routes that link non-metros. Growth on these routes, according to the AAI, has been in the region of 60%–100%.

Prime routes, such as Delhi-Mumbai and Delhi-Bengaluru, are no longer profit generators, mainly due to increased capacity and declining passenger traffic. The decline in traffic is primarily the result of increased fares due to raised fuel costs. Traffic has also been affected by the global financial crisis recently.

Traffic growth at non-metro airports is expected to exceed that at metro airports in the near future. According to Crisil, non-metro airports are expected to host as many as 74 million passengers by 2009–2010 — almost four times more than the 19 million at metro airports.

Source: Agencyfaqs, crisil, primary research

Case study: Bigadda

Leisure and entertainment activities such as gaming and social networking are popular across India, and not just in big cities familiar.

Of the 50–60 million internet users in India, between 26–37 million Indians use social networking sites.

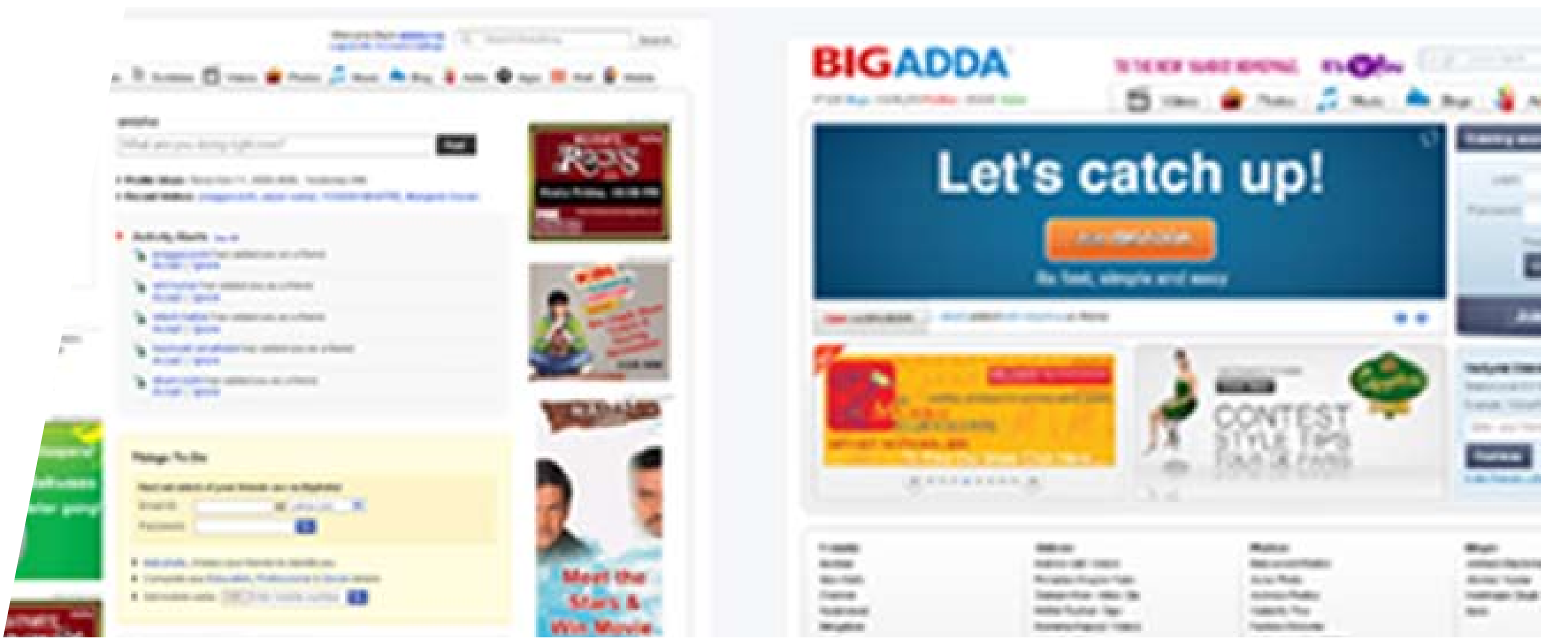
Bigadda gets roughly 50% of its registered users from non-metro cities. In addition, the number of page views/users is higher from non-metros. Almost 60% of Bigadda's page views come from such cities.

The higher number of page views per non-metro user is not surprising because small town India responds more positively to content offerings focusing on local language and themes. For example, Bollywood is very popular in tier 2 and 3 cities. To capitalize on this, Bigadda features the blogs of film personalities such as Amitabh Bachchan.

While Bigadda does not allocate city-wise marketing budgets, it has organized events and BTL activities such as the India Bike Rally across the metros, KUTs and ROUI. It is increasingly attracting advertising from consumer durable and FMCG companies that want to reach users in 100,000- plus population towns.

While most of the advertisers on the site have a pan-India presence, increasingly, local advertisers such as the Jan Nirmal Educational Institute in Ludhiana and Grih Shobha in Patna have come on board. This indicates the increased interest of local advertisers to reach consumers on the national platform.

Source: Primary interviews by EY



Case study: Zapak Gameplex

About the gaming market in India

- The retail gaming industry in India, which includes PC, online, mobile and console gaming, is growing rapidly.
- According to the FICCI Frames 2009 report, the retail gaming industry in the country has grown from INR6.5 billion in 2008 to around INR9.4 billion in mid 2009.

About Zapak Gameplex

- Zapak Gameplex, promoted by the Reliance ADA Group, is one of the pioneers in the exclusive cyber café business dedicated to gaming.
- It has around 65 live cafes across 40 cities in India and offers a bouquet of 200 games that can be played on LAN or any internet platform.
- In addition, it offers a wide range of gaming merchandize and accessories such as T-shirts, caps and bags.

Target group

- Zapak Gameplex targets the internet-using young population in the country. Its entry strategy relies on market mapping of the internet population/young people and the number of organized and unorganized cyber cafes in an area or city.
- According to Zapak, it is essential that gaming cafés have a captive audience of schools, colleges and institutes as well as a residential area close by.

Number of outlets and time utilized

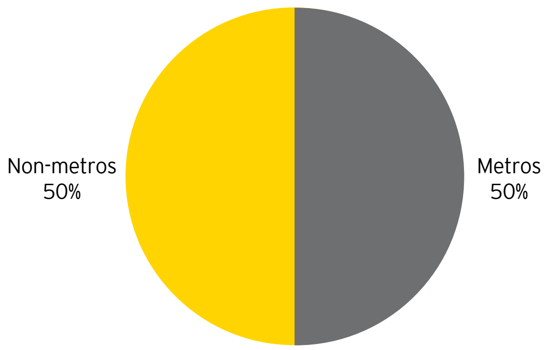
- The non-metros account for around 40% of Zapak total number of gameplexes and contribute 50% in terms of the time utilized. This indicates the higher contribution of utilized time per gameplex in non-metros.

Number of outlets of Zapak Gameplex

	2009
Metros	41
Non metors	30+

Zapak attributes this to limited entertainment options in non-metros, which enables it to attract a loyal audience.

Time utilization in 2009



Source: Primary interviews by EY

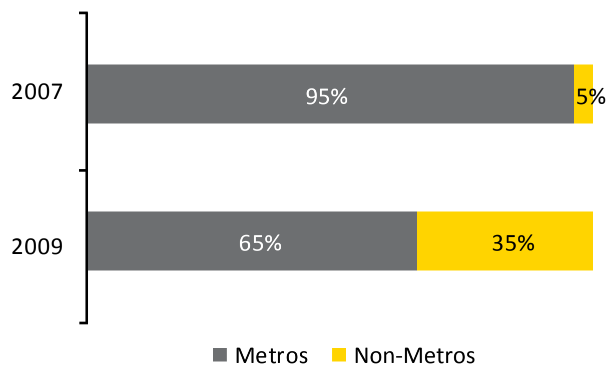
Marketing strategies

Zapak's gameplex marketing activities are limited to BTL.

There was a clear uptake in the company's marketing spend in non-metros in 2009. Its spend was heavily skewed in favor of metros in 2008, since gaming cafes were introduced there first.

The increasing share of non-metros in its marketing spend indicates their growing importance.

BTL promotions (% share)



Source: Primary interviews by EY

Case study: Kaya

About the Wellness market in India

India's market for wellness services is estimated at INR110 billion (US$2.2 billion), and is projected to grow at an annual rate of 30–35 %.

Wellness, as defined in this case, is divided into seven core segments — allopathy, alternative therapies, beauty, counseling, fitness, slimming, nutrition and rejuvenation.

Favorable market demographics, consumerism, globalization, changing lifestyles and increasing awareness are the growth drivers of this segment.

About Kaya Skin Clinic

The Marico-owned premium skincare services provider Kaya offers scientific and efficacious skin care solutions that are customized for the Indian skin.

Kaya Skin, its skincare clinics, and Kaya Life, its weight loss clinics, both operate under the Kaya franchise.

To augment its revenues, Kaya also sells its skincare products in these clinics. The products contributed 1 % of Kaya's 1.6 billion revenue in 2008–2009.

Target group

The group's major target group in the metros as well as non-metros is women.

Earlier, most of Kaya's customers were those with skin problems. Increasingly, regular people wanting to look after their skin are using Kaya's services. The company believes that this trend is more visible in KUTs because consumers in small towns have more spare time at their disposal.

Another distinct trend that has emerged is that men are utilizing wellness services now more than ever before,not just in the bigmetros, but also in tierII and IIIcities.

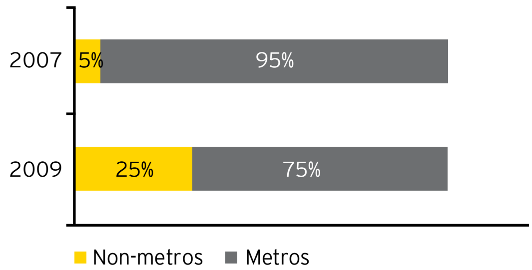
Today, 18% of Kaya Skin Clinic's customers are men.Into wns such as Surat and Coimbatore, 30% of Kaya's user sare men. This is a good indicator of acceptance of new products and emergence of new segment sintier II and III towns.

Increasing number of clinics in non-metros

Consumers in small town India accepted Kaya more readily than those in metros. The company attributes this to the fact that it was a "first" for consumers in these towns to be presented with a combination of the ambience and service quality of a spa and the efficacy of a hospital.

Therefore, although metros are far better penetrated in terms of outlets per person, the uptake has been much faster in non-metros. This is evident from the chart below, which depicts the rapid rise in Kaya clinics in non-metros from 2007 till the present.

Number of clinics (2007-2009) - % share



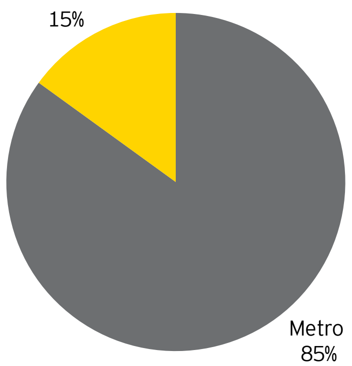
Source: Primary interviews by EY

Kaya's first target — the metros

Approximately 85% of Kaya's revenues still come from the metros, but going forward, the company expects that this share will reduce, since the majority of its outlets in non-metros were initiated in the latter half of 2009 and are still relatively new. It expects demand to pick up from these outlets, as consumers become more familiar with the brand and the services offered.

Non-metros are still relatively untapped, and the company maintains the same margins from the metros and the non-metros, which indicates the willingness of consumers in tier 2 and 3 towns to spend on discretionary products and services. When Kaya's revenues from metros fell in Q4 08, they remained flat for non-metros. This proved the resilience of the non-metro consumer in the face of the downturn.

Revenue contribution of metros vs. non-metros 2009 (in %)



Source: Primary interviews by EY

Marketing strategy

ATL marketing

Print and OOH: Kaya uses a combination of "Print, Outdoor and BTL activity "while launching its products and services in a new city. It extensively uses regional dailies and the city editions of publications to advertise them.

Kaya also advertises in niche (largely women's) magazines for specific campaigns, e.g., anti-ageing or bridal skin care.

Digital media: Kaya is seeing its digital marketing initiatives driving growth in tier 2 and 3 cities such as Ludhiana, Indore, Nasik and Surat, among others. It also uses digital media extensively to promote its brand and publicize it by "word of mouth." The company employs around 250 dermatologists, who reply to queries on Tweets or Yahoo Q&A's.

Kaya also has an online home delivery system for its products and also offers a live web chat service, where its dermatologists are available to give advice on skincare. Youth communities on social networking sites such as Orkut are another way of attracting new users.

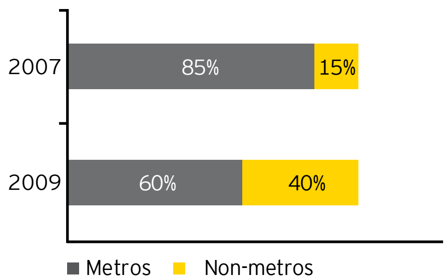
Other initiatives: Given the importance of weddings in India, the brand has tapped the potential of smaller cities by creating several properties or services associated with bridal services for the bride, groom and their extended families.

BTL marketing

Kaya finds it profitable to organize workshops and events on skincare for its customers. It generates more business from its existing customers by offering this service.

BTL's marketing activity has grown significantly in non-metros, as compared to the metros, which indicates the importance of KUTs. The company has mainly diverted its advertising expenditure to the non-metros.

BTL marketing activity based on volulme (2007-2009)



Source: Primary interviews by EY

Changing trends in marketing spends

According to Ernst & Young's 2008 report on consumption and media spends, marketers in India were consciously focusing on the top 15–20 towns and media spends were skewed in favor of the metros. A 2007 industry estimate indicated that spends on the six metros comprised 60% of the national spend.

Our primary research indicates that the current share of the top six metros may have declined to around 40%–45% of the national media spend. A large portion of this spend has been diverted toward the KUTs and the ROUI, indicating that advertisers are cognizant of the growing significance of these.

Share of KUTs and the ROUI in national media spends increasing

ATL spends (including TV, print, radio, cinema and outdoor) — 2009 category estimates

	Metro	KUT	ROUI	Rural India
Consumer durables (appliances)	50	30	Spillover from last pop strata	20%
Consumer durables (electronics)	70%	30%		
LCD TV				
Consumer durables (electronics) CRT TV	10%	30%	30%	30%
Branded clothing	65-70%	20-25%	10%	
Cars (under 8 lakhs)	40%	40%	20%	
Financial services	40%	30%	15%	15%
Women's personal hygiene products	35%	30%	20%	15%
Two wheelers	20%	30%	30%	20%

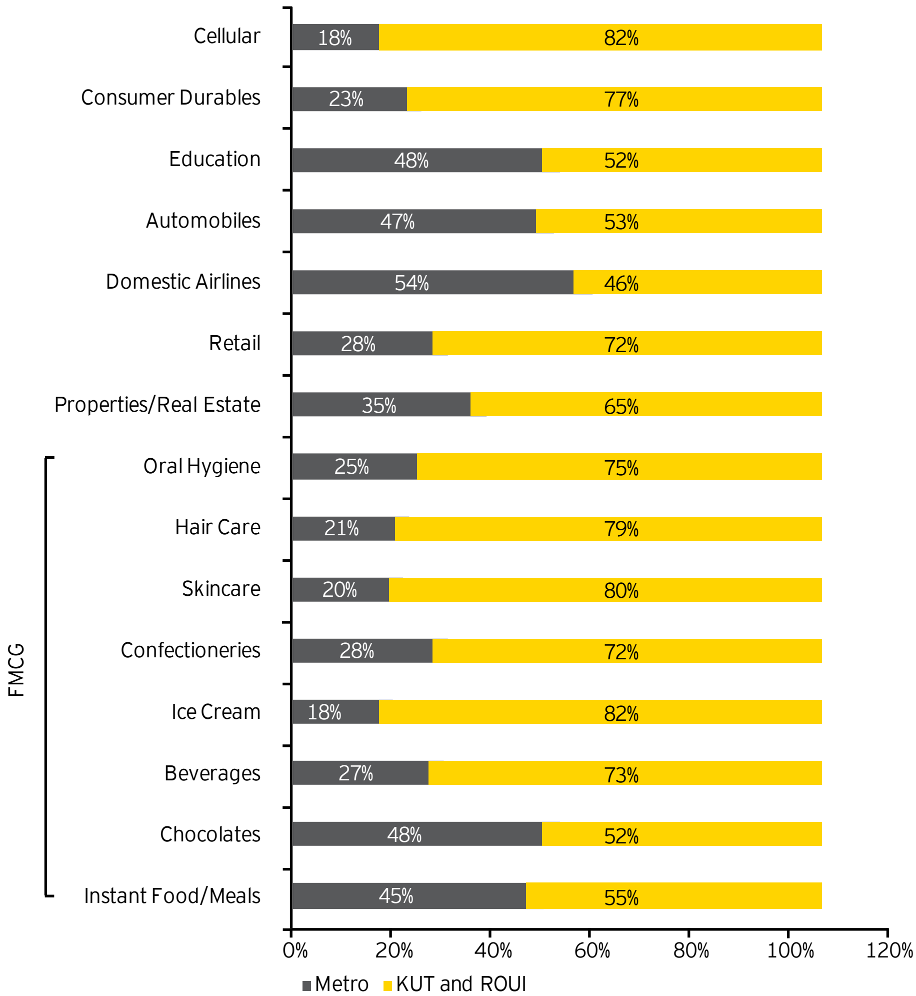
Above the line (ATL) media spends in the KUTs and the ROUI equal or exceed those in the metros in the low and mid value categories. Higher value categories are still metro dominated. Yet there is a definite uptake in the share of KUTs and ROUIs in overall ATL spends.

Metro share of newspaper advertising — 2009 (col/cms) from January–June 2009

Newspapers accounting for >95% of print ADEX — may be representative of the print category

Print advertisers are increasingly advertising in city-specific editions and supplements circulated in the KUTs and the ROUI.

The share of the KUTs and the ROUI in newspaper advertising (by volume of activity) in 2009 was higher than 50% across most categories. For categories such as cellular skincare, oral hygiene, hair care and consumer durables, the share is even higher than 75%.



1 Domestic airlines have an 18% share in the overall airline sector.

2 The contribution of four-wheelers is 65% and that of two-wheeler 19%.

3 The maximum number of advertisements are for tea brands.

4 Data on categories such as instant food/meals and chocolates has been considered for the period Q1-Q309. For all the other categories, data for the period Q1-Q209 has been considered.

Figures are on col*cms

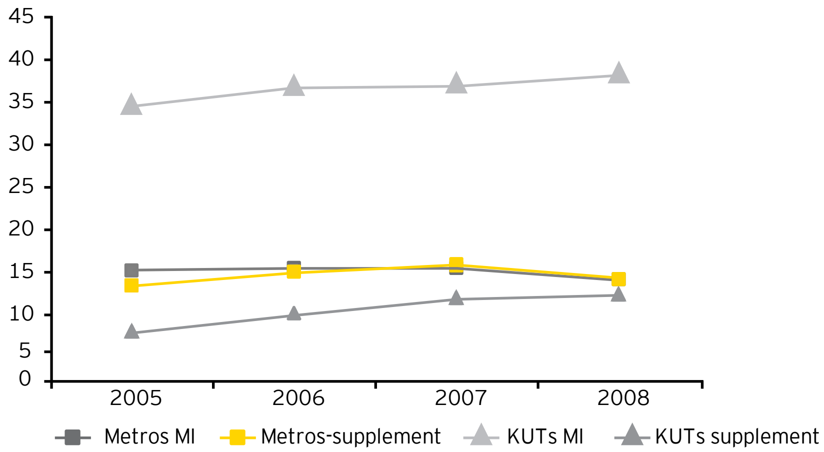
Source: AdEx India - A division of TAM Media Research, Ernst & Young estimates

Changing marketing spends: print advertising

This analysis, pertaining to print advertising (by volume or number of insertions) based on a selection of newspapers, suggests a much higher four-year CAG Rover from January–December 2005–2008 for both city-specific main editions and the supplements of publications in KUTs as compared to the metros.

Whereas the actual ADEX in rupee terms is still largely dominated by the metros due to higher insertion rates prevalent in them, the growth in volume terms is clearly being driven by the KUTs.

Print Advertising ADEX (by volume in sq cms)



Metros		KUTs	
MI	Supplement	MI	Supplement
-2.30%	1.90%	3.40%	15.50%
CAGR 2005-2008			

Source: TAM ADEX data

Note: Analysis is based on a representative sample of a limited number of newspapers across cities.

Category-wise print ADEX CAGR (January-December 2005-2008) (by volume in sq. cms)

Categories	Metros		KUTs	
	MI	Supplement	MI	Supplement
Properties/real estate	-3.10%	6.60%	22.30%	43.70%
Readymade garments	-3.10%	2.00%	23.30%	37.50%
Professional services	-22.90%	-10.60%	2.50%	12.70%
Airlines	-20.30%	-22.90%	-14.70%	9.80%
Branded jewelry	-21.50%	-31.70%	-11.00%	44.20%
Laptops/notebooks	-4.10%	15.20%	16.90%	128.90%
Fitness equipments/clinics	-14.10%	-3.50%	-6.20%	21.10%
DTH service providers	51.70%	26.90%	61.40%	94.20%
Readymade garments	-3.10%	2.00%	23.30%	37.50%
Professional services	-22.90%	-10.60%	2.50%	12.70%
Camera-digital	12.10%	66.70%	62.60%	83.20%
Beauty parlours/salons	-16.50%	-4.90%	5.00%	3.30%
Sunglasses/lenses	-32.20%	-7.70%	1.80%	9.60%
Medicated skin treatment	-26.60%	-2.60%	-14.10%	58.90%
Cold creams	-100.00%	-19.80%	164.40%	86.10%
Cars/jeeps	0.90%	11.70%	3.80%	25.80%
Footwear	0.50%	2.60%	7.60%	27.90%
Retail	-34.40%	-24.80%	-19.40%	-15.70%
Two wheelers	-26.30%	-15.90%	-20.60%	-14.60%
Mineral water	-42.50%	-87.60%	-24.20%	-17.40%
Ent zones-miscellaneous	34.50%	53.80%	23.80%	27.80%
Suitings	14.10%	94.80%	32.30%	9.10%
Ent zones-pubs/discthqs/ lounge	24.60%	45.20%	17.30%	1.70%
Hair care range	183.40%	107.60%	83.70%	3.90%
Breakfast cereals	188.60%	67.10%	87.90%	Not Available

Decline in Metro and growth in KUT

Growth in Metro and KUT, but faster growth in KUT

Decline in Metro and KUT, but faster decline in Metro

Growth in Metro and KUT, but faster growth in Metro

A category-wise analysis of print advertising throws up some interesting trends.

1. Categories including professional services, airlines, branded jewelry, laptops/notebooks, fitness equipment, DTH service providers, digital cameras, beauty parlors/salons, sunglasses, contact lenses, medicated skin treatments and cold cream, several of which can be considered discretionary, demonstrate a clear trend of a declining CAGR in the print ADEX in the metros, while demonstrating an uptake in advertising in the KUTs.

   This suggests a shift in perception wherein advertisers are clearly seeing value in advertising discretionary products and services beyond the metros.
2. Categories such as footwear and cars/jeeps are growing in the metros as well as the KUTs, but at a much faster rate in the KUTs.
3. Categories such a retail, two-wheelers and mineral water are declining overall, but the decline is much steeper in the metros.
4. Metro-centric categories such as breakfast cereals, hair care and products, entertainment zones and suitings are growing in the metros as well as the KUTs. However, the growth is higher in the metros. Even in the KUTs, the CAGR for hair care and breakfast cereal (>80%) demonstrates the increasing importance of these markets to advertisers.

Figures are based on col * cms

Source: AdEx India –A division of TAM Media Research, Ernst & Young estimates

BTL activity

% share of 2009 BTL activity (by volume)			
Metro	KUT	ROUI	Rural India
20	20	35	25

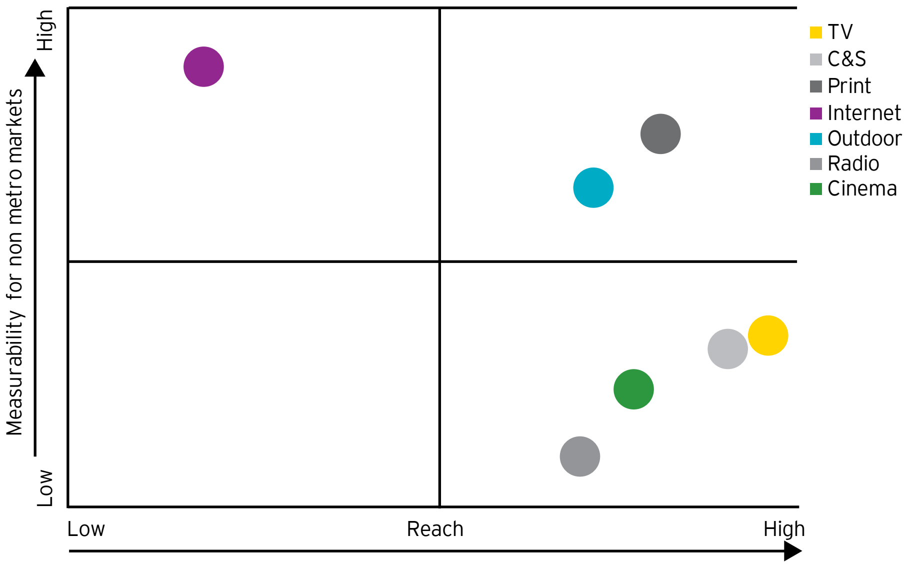
Source: Primary interviews by EY

The share of BT:ATL in total marketing spends is estimated at 40:60. Our primary research reveals that around 60% of BTL activity is concentrated in the ROUI and in rural India. This is particularly true of sectors such as telecom, consumer durables and certain categories of FMCG products.

The KUTs and the ROUI comprise more than 50% of total BTL activity in the country.

The emphasis on BTL in the non-metros reiterates the growing importance of non-metro urban India for marketers.

Media reach, measurability and cost-effectiveness determine the choice of media.



Source: IRS, Primary interviews, Ernst & Young analysis

Favorability of media vehicles for non metros

Optimal media vehicle for specific targeted audience in tier 2/tier 3 cities	Optimal media vehicle for mass audience - 20+ cities
▸ Outdoor	▸ C&S TV
▸ Print	

Print and outdoor media rate high on measurability and reach.

They are also more cost-effective, particularly when a brand has very targeted segmentation, is aimed at a specific region or when a new product/brand is being launched in a particular town.

Source: Interviews with media planners

Sectoral analysis: telecom

- The size of the telecom market increased to INR308 billion in 2009.
- While the total number of subscribers is going up across the country, the growth in the number of subscribers is much higher in non-metros at 85.6% vs metros at 54%.
- Declining ARPUs imply that India Inc. is tapping a large market at the bottom of the pyramid by reducing tariffs.

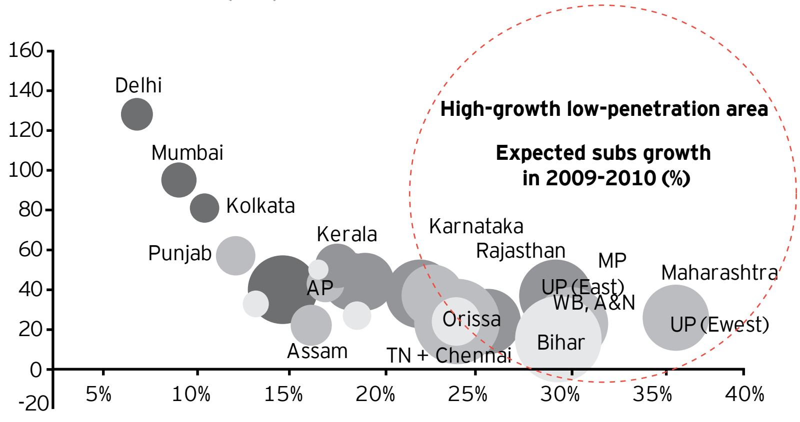
Markets	4-Mar	5-Mar	6-Mar	7-Mar	8-Mar	CAGR
Metros	7,941,766	11,018,998	15,860,318	31,630,000	44,810,000	54.12%
Rest of India (excluding metros)	18,222,639	30,047,117	53,339,395	133,480,000	216,260,000	85.61%

Category	Circles included
Metro	Delhi, Mumbai, Kolkata, Chennai
A	A.P., Gujarat, Karnataka, Maharashtra, Tamil Nadu
B	Haryana, Kerala, M.P, Punjab, Rajasthan,
C	Assam, Bihar, H.P., J&K, North East, Orissa

Source: TRAI, EY analysis

Going forward also, the majority of new subscribers will be from the non-metro circles.

Penetration in 2008 (in %)



Note: the sizes of bubbles indicate population size

Source: WCIS

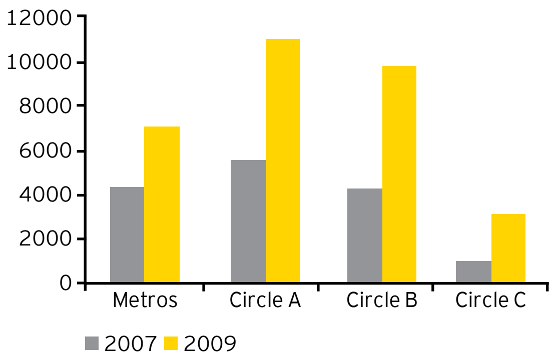
Interestingly, while the metro circle has grown at an overall CAGR of 28%, non-metro circles have seen a CAGR of ~49%.

According to industry estimates, around three out of four new subscribers are from the ROUI and rural India, i.e., 75% of first-time subscribers are rural or ROUI consumers.

The percentage share of VAS in total revenues is consistent across the circles (around 7%–8%). When VAS services were first introduced in the country, it was expected that their share in total consumption would be much higher in the metros. Similar consumption patterns across the circles however suggests a trend toward discretionary spends in non- metros.

Unlike in the case of metros, the travel time and work pressures for non-metro consumers are much less, which allows the residents of tier 2 and 3 cities more time to experiment with these services. Furthermore, as the uptake of high-end handsets increases in these markets, technological incompatibility is no longer an impediment.

Revenue contribution of circle categories to telecom industry: non-metro circles growing faster



Source: EY analysis

The telecom industry has seen a phenomenal growth in the past decade. Having doubled its revenues in the last two years (2007–2009), the overall size of the industry is estimated at around INR308 billion.

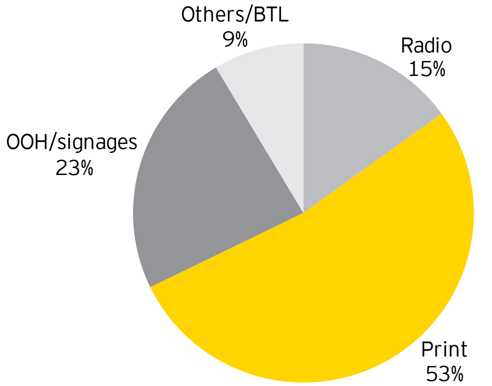
Interestingly, while the metro circle has grown at an overall CAGR of 28%, non-metro circles have seen a CAGR of ~49%.

Going forward, non-metros are expected to drive the growth of telecom since all the metros have crossed the 100% teledensity mark, which indicates that the number of mobile phone connections in these cities is higher than their number of residents.

Telecom marketing spends: non-metro circles comprise around 77% of circle marketing budget

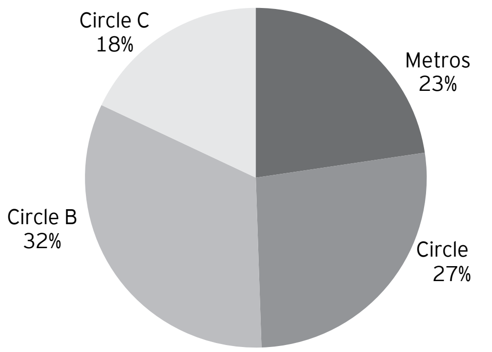
Marketing

How circle marketing spends are allocated across media (2009)



Source: EY analysis

Circle marketing budget (2009)



Source: EY analysis

Marketing budgets are allocated in around the following proportions:

- National marketing budget: 45%
- Circle-wise budget: 45%
- Trade marketing: 10%

Telecom operators have a national marketing budget for brand building. This is primarily spent on advertising across the national media. Television accounts for the bulk of this budget.

Circle marketing budget is earmarked to target consumers in specific regions. The circle marketing budget for the metro circle is under 33% of the total budget. Estimates indicate that it was around 50% in 2006.

Source: EY Analysis, Primary interviews by EY

Case study: Idea

About Idea

IDEA Cellular is a leading GSM mobile services operator in India with over 55 million subscribers, under brand IDEA. It is a pan India integrated GSM operator covering the entire telephony landscape of the country.

Delhi, Andhra Pradesh, Gujarat, Maharashtra, Haryana, Kerala, Madhya Pradesh and Uttar Pradesh (West) are established service areas for the company.

Recently, the company has expanded its pan India presence through service launches in Orissa, Chennai and Tamil Nadu, Jammu & Kashmir, Kolkata and West Bengal, and the North East states in FY10.

Target group

IDEA offers affordable and world-class mobile services to varied segments of mobile users, including high end users and low end price sensitive consumers.

IDEA offers seamless coverage to roaming customers traveling to any part of the country or to any of the 200 foreign countries where it has presence.

Recently, the company has expanded its pan India presence through service launches in Orissa, Chennai and Tamil Nadu, Jammu & Kashmir, Kolkata and West Bengal, and the North East states in FY10.

Revenue contribution

Idea's revenues have increased by 124% over the period 2007–2009, with the bulk of its revenue coming from non-metro circles.

Idea's revenues have grown at a much faster rate as compared to the industry as a whole.

Metro circle revenues have grown at a CAGR of 35%, while non-metros have grown at a CAGR of 52% over the period 2007–2009.

Circle-wise revenue contribution (2007-09)

Source: Telecom watch

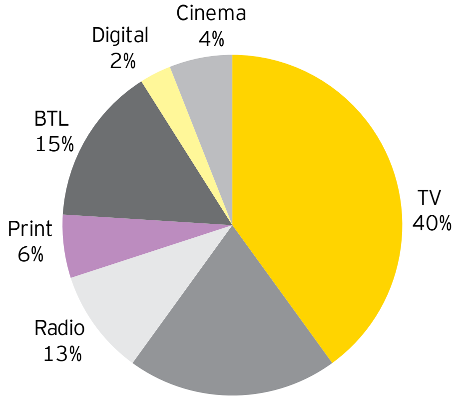
Marketing strategy

Idea Cellular promotes its services through several innovative advertisements via a variety of media such as TV, print, out-of-home and radio.

For the past two years, Idea has opted to promote its brand, whereas its competitors have focused on promoting their service offerings. Idea's focus in its advertisements has changed from highlighting its tariff plans and network coverage to using mobile telephony to highlight social issues. The company has also developed several micro sites to support its advertisements, based on social issues.

Over the last few years, its marketing spend has shifted from print and outdoor to TV and radio.

Idea cellular advertising media mix 2009



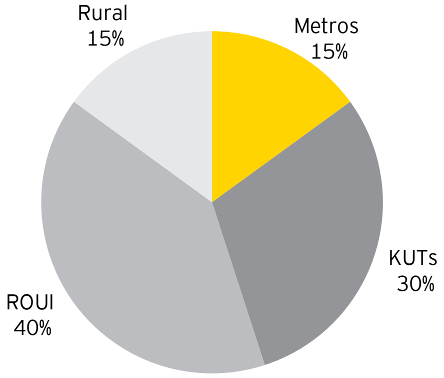
Source: Primary interview conducted by EY

Significance of KUT and ROUI in marketing budgets

Idea Cellular's total marketing spend is skewed in favor of the ROUI and KUTs, with the two categories claiming around 70% of the company's marketing spends.

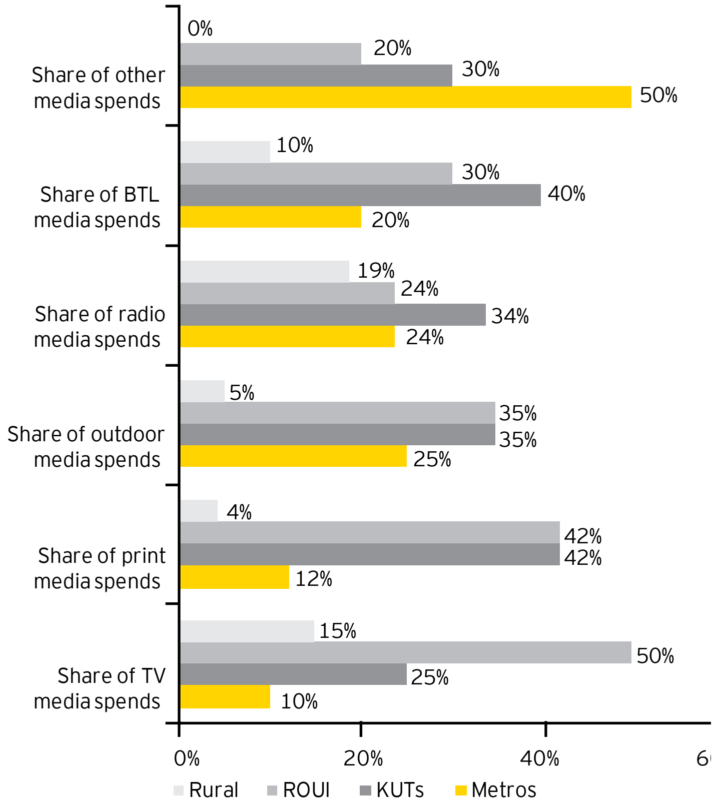
In all other media, except digital media, the ROUI and KUTs command a higher proportion of company's marketing spend than the metros.

Overall marketing spends (2009)



Source: Primary interview conducted by EY

Breakup of marketing mix by market categories 2009



Source: Primary interview conducted by EY

Case study: Skoda

About the car market in India

- The size of the car market in India was estimated at INR1.5 million (by volume units) in 2009.
- The growth of the automobile industry in India has been fueled by a sub-category of cars falling in the <INR500,000 category.

About Skoda

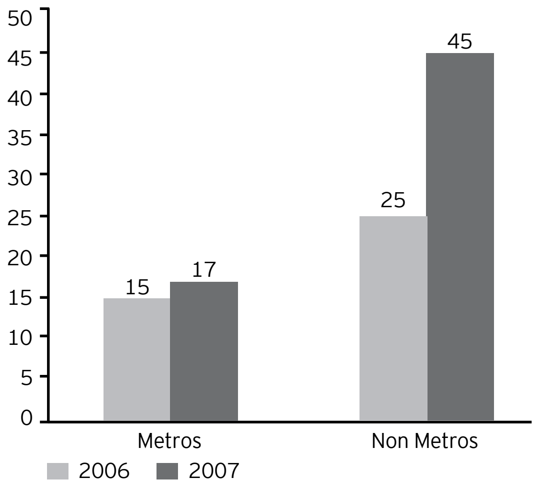
- Skoda entered India with its first plant in Aurangabad in 2001.
- Since then, it has captured a 1.5% (as of 2008) market share.
- Skoda offers four models in India, ranging from INR0.5-2.5 million

Range (INR)	Car
5-10 Lakh	Fabia
10-13 Lakh	Octavia
13-18 Lakh	Laura
18-25 Lakh	Superb

Target group

- **Skoda targets urban consumers across India.**
- Contrary to expectations, it is the smaller and cheaper Fabia that is popular in the metros.In the small towns, where parking is not a problem, consumers opt for larger and more expensive cars. In addition, Fabia is also a good choice as a second family car in the metros.
- Dealerships are increasing at a faster rate in non-metros
  - The number of dealerships has grown much faster in non-metros, at around five dealerships per year as compared to the metros, which have grown at around 0.5 dealerships per year.
  - The total number of dealerships in the non-metros is also much higher than in the metros.

Number of dealerships (2006-2009)

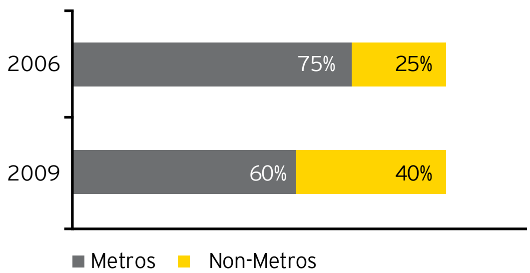


Source: Primary interview conducted by EY

Marketing strategies

- Non-metros are increasingly being allocated higher marketing spends.
- The company has increased its marketing budget for non-metros from 25% in 2006 to 40% in 2009.

Overall marketing budget in metros and non-metros (2006-2009)



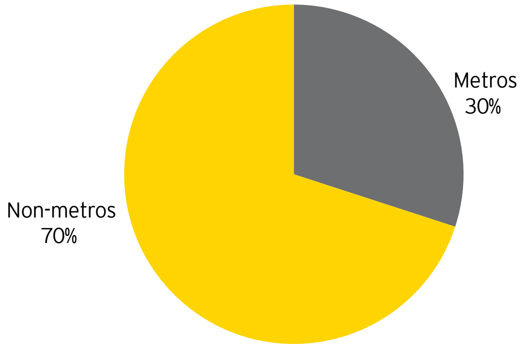
Source: Primary interview conducted by EY

Print advertising:

Print is a critical component of Skoda's advertising strategy. The company follows a focused advertising strategy of releasing print advertisements in city-specific publications and supplements in the regions where they it has a presence.

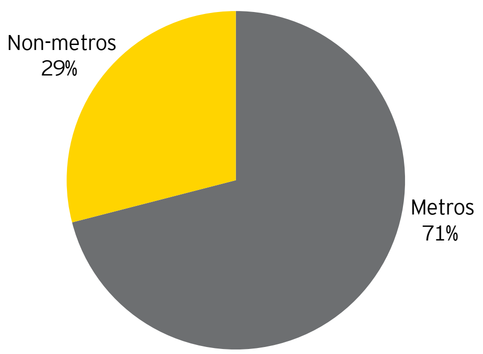
Skoda has released its advertisements in national publications such as *The Times of India*, the *Hindustan Times*, *The Hindu*, *Deccan Chronicle* and the *Economic Times* ,and also targets the city editions of *Gujarat Samachar*, *Dainik Bhaskar*, *Rajasthan Patrika*, *Amar Ujjala* and *Punjab Kesari*.

By number of insertions (volume) in 2009



Source: Primary interview conducted by EY

By actual amount spent (value) in 2009



Source: Primary interview conducted by EY

Non-metros get a higher percentage of print advertisements as compared to the metros, but the actual amount spent on non-metros is lower. This indicates that the cost-effectiveness of print advertising in non-metros.

Appendix

Reach of malls

City	Population (in '000)	Number of malls	Number of malls per '000
Ahmadabad	5342	14	0.0026
Amritsar	1452	10	0.0069
Bengaluru	6763	26	0.0038
Bhopal	1784	2	0.0011
Chandigarh	955	19	0.0199
Chennai	4498	16	0.0036
Cochin	1573	2	0.0013
Coimbatore	3396	2	0.0006
Delhi	16065	42	0.0026
Hyderabad	4248	15	0.0035
Indore	2071	4	0.0019
Jaipur	3159	10	0.0032
Jamshedpur	1239	0	0
Kanpur	3319	5	0.0015
Kolkata	4701	18	0.0038
Lucknow	2747	5	0.0018
Ludhiana	1962	15	0.0076
Madurai	1545	1	0.0006
Mumbai	13071	77	0.0059
Nagpur	2937	4	0.0014
Nasik	2283	3	0.0013
Patna	2331	0	0
Pune	5090	40	0.0079
Surat	3961	4	0.001
Thiruvananthapuram	1172	3	0.0026
Vadodara	1833	7	0.0038
Vijaywada	1360	2	0.0015
Vishakhapatnam	1665	1	0.0006

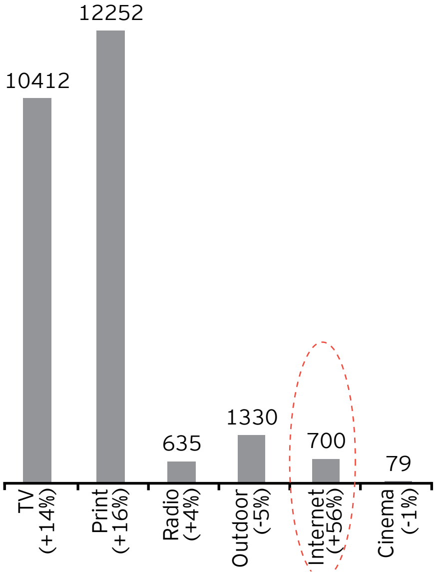
Source: The Market Skyline of India 2008, Indicus Analytics

Mall Penetration is higher in KUTs such as Chandigarh, Amritsar, Kanpur, Ludhiana and Pune as compared to the metros.

This suggests the importance of these towns for marketers, and the relative ease of availability of products for consumers in these regions.

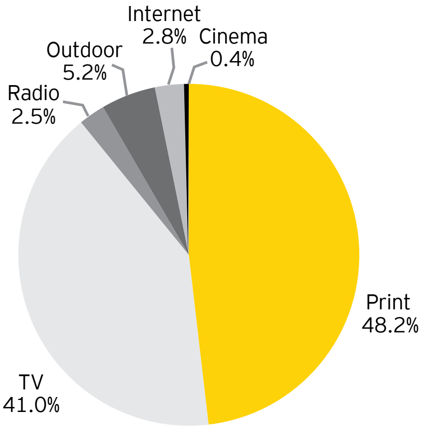
Defining marketing channels: ATL

Print and TV constitute nearly 90% of the ADEX — internet the fastest growing medium



ATL ADEX

Total industry size: Rs. 25,408 crores (+14%)



Figures in brackets indicates % growth over 2008
Source: LMG estimates, MAP, Dimples Cine, Aaren Initiative estimates and Pinstorm estimates
Period: Jan-Dec '08 and Jan-Sep '09 actual, Oct-Dec '09 estimated

Defining marketing channels: BTL

Below the line

- Commissions
- Wall paintings
- Mall activities
- Discounts
- Telemarketing
- Shop display
- Sales promotions
- Roadshows
- Direct selling agents
- Entertainment events

BTL spends

Total industry size: Rs. 20,000 Crores

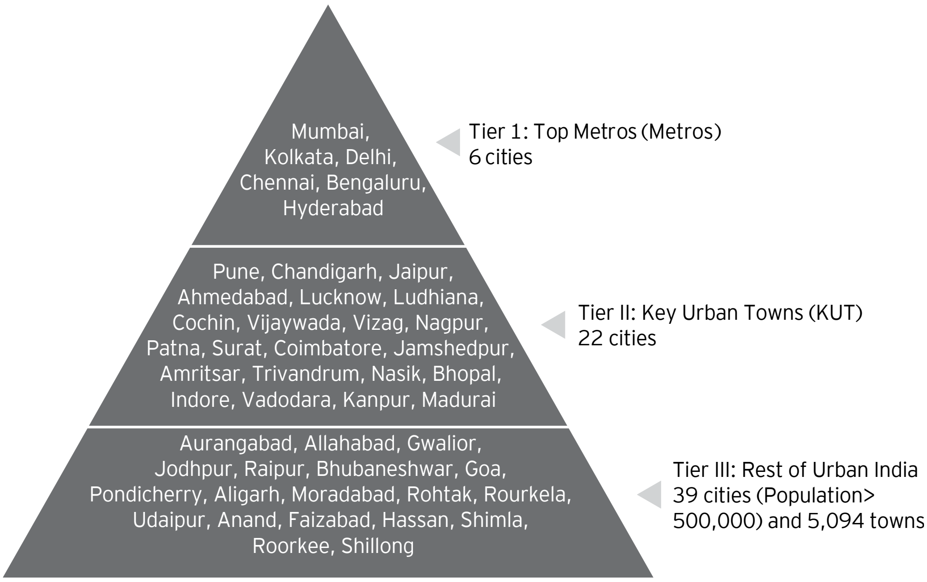
(up from Rs. 13,200 Crores in 2006)

The increasing importance of ROUI and Rural India consumers and in the inability to reach them through mass media due to limited media reach and /or poor media measurability, is pushing up the share of BTL in marketing spends.

Key definations

Above-the-line Media...	Below-the-line Media...
Are tailored to reach a mass audience	Are targeted at individual consumers, based on their expressed needs and preferences
Establish brand identity or reinforce emotional concept surrounding a product or brand	Issue a "call-to-action," inspiring specific customer activity or tailored messages about a product or a brand
May or may not drive customer response	Drive individual responses
Are difficult - if not impossible - to measure with any accuracy	Are highly measurable, allowing marketers insight into their return-on-investment, as well as those tactics that are (and are not) working
Cater to the mass market	Establish one-to-one relationships between consumers and marketers

Source: V12 Group, Ernst & Young analysis



Metros: Top 6 cities as listed above
KUT: Next 22 cities as listed above
Rest of urban India: Urban cities other than rural India
Rural India: As per census

Classification criteria:

Population	Affluence level	Growth potential

Publications selected for the print ADEX metro vs KUT section of this study:

The flagship editions of leading dailies were selected to represent each market.

Times Of India	Del
Hindustan Times	Del
Times Of India	Mum
Daily Sakal	Pune
Lokmat	Nag
The Hitavada	Nag
Times Of India	Bgl
Hindu	Chn
Daily Thanthi	Chn
Malayala Manorama	Koch
Deccan Chronicle	Hyd
Eenadu	Hyd
Tribune	Chnd
Dainik Bhaskar	Chnd
Punjab Kesari	Jal
Dainik Bhaskar	Jal
Dainik Bhaskar	Jpr
Rajasthan Patrika	Jpr
The Telegraph	Kol
Ananda Bazar Patrika	Kol
Assam Tribune	Guw
Dainik Bhaskar	Ind
Dainik Bhaskar	Bhp
Dainik Bhaskar	Raip
Nai Duniya	Ind
Dainik Jagran	Lck
Dainik Jagran	Kan
Hindustan	Pat
Divya Bhaskar	Ahm
Gujarat Samachar	Ahm
Sandesh	Ahm

Increasing media reach in the KUT and the ROUI

CAGR				
Weekly reach 2003-2009	Metro	KUT	ROUI	Rural
Press	3%	4%	4%	5%
Dailies	3%	4%	4%	6%
Television	4%	4%	4%	3%
C&S Television	7%	8%	9%	13%
Radio	4%	8%	5%	2%
Internet	8%	12%	15%	19%

An increase in media reach goes hand in hand with an increase in media consumption. Media reach has been growing across the country, but the CAG Rin growth is much higher in the ROUI and KUTs, as compared to the metros, since the latter is already well penetrated.

Increasing media reach implies increasing exposure to global values, aspirations and changing lifestyles. Consumers in KUTs and the ROUI are exposed to a wide array of brands and services. This enhanced awareness about products and services widens the potential for consumption.

Print media: Hindi vs English dailies

CAGR (2003-09)				
Weekly reach	Metro	KUT	ROUI	Rural
Any Hindi Daily	4.20%	4.00%	4.50%	6.20%
Any Gujarati Daily	-3.0%	2.8%	3.1%	1.9%
Any English Daily	3.60%	1.30%	2.90%	5.90%
Any Tamil Daily	6.0%	6.6%	6.8%	6.4%

The CAGR in weekly reach over a six year period, has been higher for Hindi dailies as compared to English dailies, throughout the nation.

There is no clear trend in regional dailies. For instance, the reach of Gujarati dailies is declining in the metros, but increasing in other regions. By converse, Tamil dailies are increasing in reach across the nation.

The penetration of Hindi Dailies is higher in the KUT and the ROUI, suggesting that Hindi Dailies might be a relevant medium to reach the consuming classes in non-metro urban markets.

Penetration 2009	Metro	KUT	ROUI	Rural
Any Hindi Daily	17.50%	27.60%	23.50%	12.10%
Any Gujarati Daily	1.90%	12.40%	2.40%	1.00%
Any English Daily	24.10%	8.80%	5.30%	0.80%
Any Tamil Daily	6.80%	4.50%	6.10%	2.10%

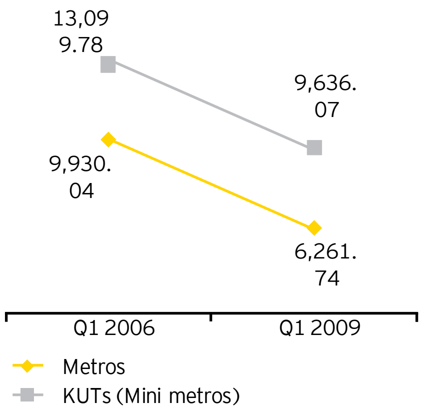
Impact of slowdown on print ADEX more pronounced in metros

Advertising volume in sq cms			
	Q1 2006 ('000)	Q1 2009 ('000)	Decline %
Metros	9,930.04	6,261.74	33%
KUTs	13,099.78	9,636.07	26%

While the metros and the KUTs saw a decline in their print ADEX in Q1 09, as compared to Q1 06, the decline was steeper in the metros.

A steeply reducing CAGR, combined with a low comparable base, suggests the diminishing importance of metros among the country's print advertisers.

Given that print ADEX is around 50% of total ATL spends, this is a significant trend.



Source: AdEx India – a division of TAM media research, Ernst & Young estimates

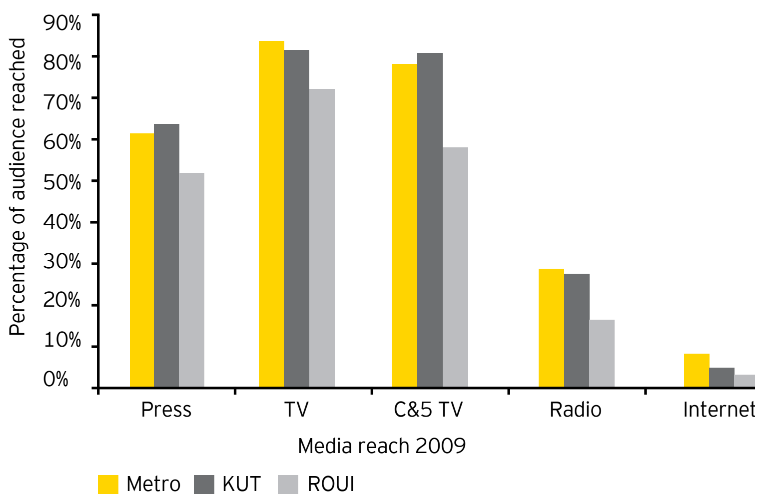
As compared to the metros, non-metro urban markets were more robust during the slowdown.

Note: This analysis is based on a representative sample of a limited number of newspapers across the cities.

Refer to appendix.
Source: AdEx India – a division of TAM media research, Ernst & Young estimates

As compared to the metros, non-metro urban markets were more robust during the slowdown.

Reach of media



Source: IRS

Media reach is comparable across the metros and KUTs; the ROUI show the highest growth opportunity.

Factors impacting choice of media

↓

Existing clutter level of specific medium within the market

↓

Reach of medium across the target group

↓

Consumer preference for a specific medium

↓

Suitability of the medium given the advertising / marketing objective

↓

Marketer's prior experience with the success of the medium in a specific market

TG: All readers

Publication	Edition	Readership (000s)	BW card rate (Rs per sq cm)	Rs cost per thousand	CPT index
The Times of India	Mum+Del+Ban	3,841	6,765	1.76	100
Hindustan Times	Mum+Del	2,437	3,700	1.52	86
The Times of India	All editions	7,142	7,749	1.08	62
Dainik Bhaskar	All editions	11,869	4,456	0.38	21
Eenadu	Andhra Pradesh	6,089	1,915	0.31	18
Dainik Jagran	All editions	16,096	3,825	0.24	13
Gujarat Samachar	Gujarat	4,603	825	0.18	10
Malayala Manorama	Kerala	9,077	990	0.11	6

Sources: Readership:IRS AIR, 2009 R2/Rates: Mediaware, March 2010

TG: SEC AB readers					
Publication	Edition	Readership (000s)	BW card rate (Rs per sq cm)	Rs cost per thousand	CPT index
The Times of India	Mum+Del+Ban	3,154	6,765	2.14	100
Hindustan Times	Mum+Del	2,030	3,700	1.82	85
The Times of India	All editions	5,711	7,749	1.36	63
Eenadu	Andhra Pradesh	1,433	1,915	1.34	62
Dainik Bhaskar	All editions	3,821	4,456	1.17	54
Malayala Manorama	Kerala	875	990	1.13	53
Dainik Jagran	All editions	4,950	3,825	0.77	36
Gujarat Samachar	Gujarat	1,590	825	0.52	24

Sources: Readership:IRS AIR, 2009 R2/Rates: Mediaware, March 2010

Our offices

Ahmedabad
2nd floor, Shivalik Ishaan
Near CN Vidhyalaya
Ambawadi
Ahmedabad – 380 015
Tel: + 91 79 6608 3800
Fax: + 91 79 6608 3900

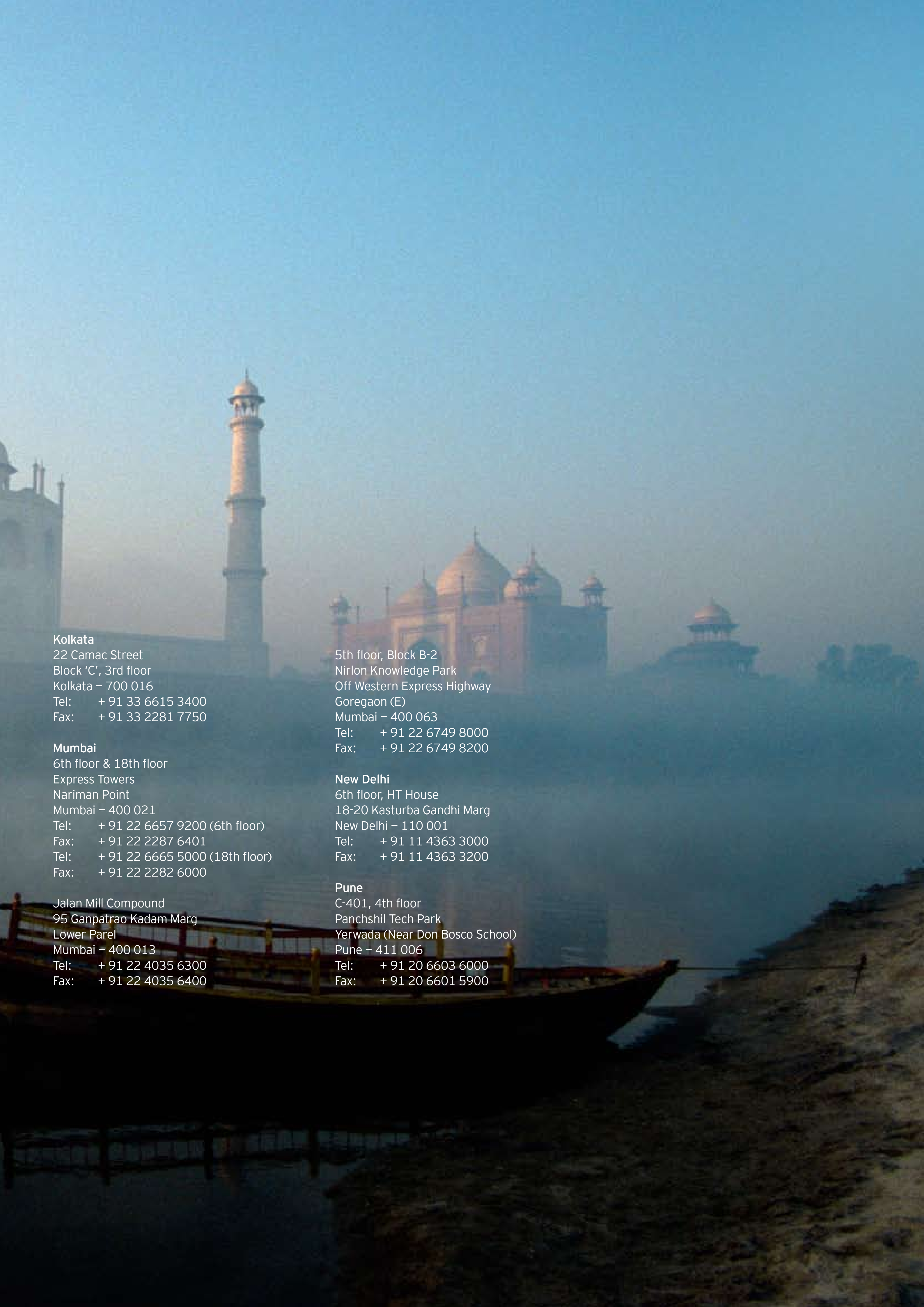
Bengaluru
"UB City", Canberra Block
12th & 13th floor
No.24 Vittal Mallya Road
Bengaluru – 560 001
Tel: + 91 80 4027 5000
+ 91 80 6727 5000
Fax: + 91 80 2210 6000 (12th floor)
Fax: + 91 80 2224 0695 (13th floor)

Chennai
TPL House, 2nd floor
No. 3 Cenotaph Road
Teynampet
Chennai – 600 018
Tel: + 91 44 6632 8400
Fax: + 91 44 2431 1450

Gurgaon
Golf View Corporate Tower B
Near DLF Golf Course
Sector 42
Gurgaon – 122002
Tel: + 91 124 464 4000
Fax: + 91 124 464 4050

Hyderabad
205, 2nd floor
Ashoka Bhoopal Chambers
Sardar Patel Road
Secunderabad – 500 003
Tel: + 91 40 6627 4000
Fax: + 91 40 2789 8851

The Oval Office
18, iLabs Centre
Madhapur
Hyderabad – 500081
Tel: + 91 40 6736 2000
Fax: + 91 40 6736 2200



Kolkata
22 Camac Street
Block 'C', 3rd floor
Kolkata – 700 016
Tel: + 91 33 6615 3400
Fax: + 91 33 2281 7750

Mumbai
6th floor & 18th floor
Express Towers
Nariman Point
Mumbai – 400 021
Tel: + 91 22 6657 9200 (6th floor)
Fax: + 91 22 2287 6401
Tel: + 91 22 6665 5000 (18th floor)
Fax: + 91 22 2282 6000

Jalan Mill Compound
95 Ganpatrao Kadam Marg
Lower Parel
Mumbai – 400 013
Tel: + 91 22 4035 6300
Fax: + 91 22 4035 6400

5th floor, Block B-2
Nirlon Knowledge Park
Off Western Express Highway
Goregaon (E)
Mumbai – 400 063
Tel: + 91 22 6749 8000
Fax: + 91 22 6749 8200

New Delhi
6th floor, HT House
18-20 Kasturba Gandhi Marg
New Delhi – 110 001
Tel: + 91 11 4363 3000
Fax: + 91 11 4363 3200

Pune
C-401, 4th floor
Panchshil Tech Park
Yerwada (Near Don Bosco School)
Pune – 411 006
Tel: + 91 20 6603 6000
Fax: + 91 20 6601 5900

Ernst & Young Pvt. Ltd.

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Ernst & Young Pvt. Ltd. is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com

Ernst & Young Pvt. Ltd. is a company registered under the Companies Act, 1956 having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata- 700016

www.ey.com/india

219.indd (India). Artwork by Rohini Sardana and Rashi Sinha.