The Logistical Challenges of Doing

By Mike Kilgore, Abraham Joseph, Jeff Metersky

Mike Kilgore(mkilgore@chainalytics.com) is President of Chainalytics LLC. Abraham Joseph(ajoseph@chainalytics.com) is the company's managing director for India. Jeff Metersky(jmetersky@chainalytics.com) is the company's Vice President for strategic planning.

India has long been a fertile ground for sourcing highly skilled IT and engineering services, but it's estimated that manufacturing and retailing is the next boom. In 2005, India was forecasted as the greatest consumer market opportunity, receiving the highest Foreign Direct Investment (FDI) confidence index. In the last year alone, India's consumption rose 21.38 percent to $11 billion. Fueled by a rising young, highly-educated, middle-class population, India's economic boom is not expected to slow in the near future.

Currently, India sits atop the global retail opportunity index as the greatest underserved market in the world. This has significant opportunities for companies waiting to sell in this market. India's retail industry, the 9th largest globally and valued at $330 billion,[1] is mostly divided among 12 million 'mom-and-pop' stores.[2] But as the consumer market grows and demand for more luxury items increases, global leaders are hoping the planned $1 trillion in new investments in mall retail space, logistics infrastructure, and distribution capability will open opportunities to create organized retailing—multi-branded hypermarkets and mall-style shopping experiences.

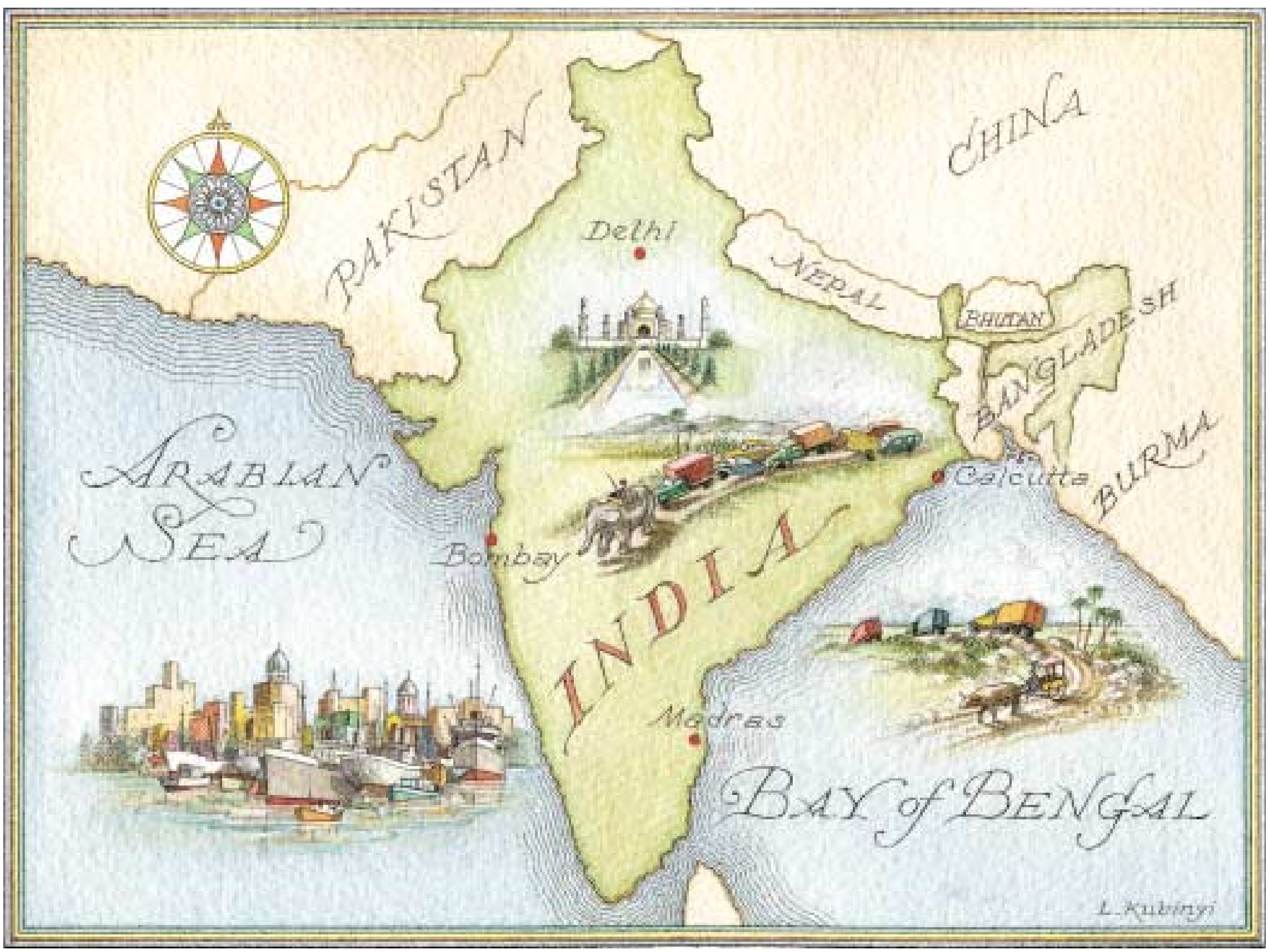
This new mass-merchant-style organized retailing, which today makes up less than 4 percent of the overall market, is expected to grow to $60 billion and increase the overall retail market by a compound annual growth rate (CAGR) of 21.8 percent by 2015.[3] Organized retailing is poised to take-off as:

• Significant mall development occurs. There are currently 361 new malls under development, nearly two-thirds of which will be in the top seven cities. This additional 117 million square feet of retail space is expected to be completed by 2008. By 2010, these numbers will jump to 600 malls and 300 million square feet, respectively. This significant increase in concentrated retail will make it easier to reach India's consumers.

• Reliance plans to add 4,000 stores. Reliance, a $12 billion enterprise run by Mukesh Ambani, plans to open 4,000 stores and hypermarkets with a target of $22.3 billion in sales by 2011. Its lofty goal of 1,600 stores by 2007 will mostly be fulfilled with grocery, but its vision is to expand to 100,000-square-foot hypermarket stores that will cross brand lines, offering apparel, fresh foods and electronics. So far, so good—stores opened since November are already doubling forecasts. Reliance will continue

Business in India

Is India the "next big thing" for your business? If you are looking to cash in on India's growth, here are some opportunities and obstacles you can expect to see when your supply chain expands in that direction.



Laszlo Kubinyi

its strategy to develop 100 million square feet in total retail space in densely populated residential areas like Hyderabad, Chennai and Mumbai.

• Wal-Mart and Bharti form a joint retailing venture. Wal-Mart currently sources over $1.5 billion in goods from India, but it has yet to sell a single item in the country. To gain access, Wal-Mart has teamed with Bharti, an India-based telecommunications conglomerate, in a joint venture that will open multi-brand hypermarkets and shopping villages in residential areas in late 2007. The alliance is helping Wal-Mart get around India's FDI restrictions, which currently ban foreign companies from operating multi-product retail stores in India. Within the arrangement, Bharti will operate the stores, while Wal-Mart will provide the procurement, inventory management, marketing and logistics.

India sits atop the global retail opportunity index as the greatest underserved market in the world.

• Pantaloon aims to grow its stake. Talks between Pantaloon and Reliance stalled early on, leaving both to go it alone. And while Pantaloon is currently India's largest retailer with over 140 stores, it will be challenged to raise the capital to compete with Bharti and Reliance's fast-planned growth. To fend off the competition, Pantaloon will spend $1 billion in the next year, opening an additional 100 Big Bazaars—stores somewhat reminiscent of Kmart in the 'blue light special' days. It also will focus its superior branding and marketing into areas like furniture, home improvement and electronics, hoping to top $6 billion by 2011.

• Others specialize. While the big guys fight it out over grocery, others are specializing in hopes of claiming a portion of the organized retail market. The Tata group, which runs Lifestyle stores and Star India Bazaar, opened its first electronic goods shop in Mumbai last year. The group, in a joint venture with Woolworths, plans to open 30 stores by next year and double outlets by the end of 2009. RPG Enterprises plans an IPO to help them open over 450 MusicWorld stores covering 4 million square feet by 2010. And Birla, through its Trinethra acquisition, plans to open 220 stores this year alone. Finally, Rahejas plans to add 55 hypermarkets dubbed 'Hypercity.'

Logistics' Infrastructure Will Slow India's Progress

So why haven't more U.S.-based companies jumped at the opportunity to reach 1.2 billion new consumers? For one, many just can't get there. India's supply chains are built on slow transit networks fed by poor roads, ineffective ports and little distribution infrastructure. In India, there is no such thing as next-day delivery, no transport company to manage nationwide deliveries, and limited distribution channels marketing foreign products to local areas. Logistics infrastructure is severely lagging the country's growth and costs are extremely high, as a result. Logistics costs are around 13 percent of GDP, compared with 8 percent in the U.S. Foreign entities that have created a retail presence and are currently selling products in India are hit with transportation costs that total 40 percent of all product costs. For organized retailing to prosper, existing logistical challenges must be overcome and the foundation of India's supply chains must be built.

These are among the supply chain challenges outside companies can expect as they enter the India market:

• **Insufficient channels.** Lack of distribution channels in India makes it difficult to reach consumers or distribute products nationwide. India is a diverse market, with 28 different states and many languages. Companies accustomed to national distribution agreements will find those opportunities virtually non-existent. To sell fruits and vegetables, for example, a farmer might encounter seven to eight levels of middlemen. Due to this inefficient channel—which includes a lack of refrigerated distribution—40 percent of perishable food rots before delivery.

• **Limited physical infrastructure.** India has one of the largest road networks in the world, yet less than half of the roads are paved and less than 2,000 kilometers are express highways, a significant difference when compared to China's 30,000 kilometers.[4] These national highways account for less than 2 percent of the total road network, but carry 40 percent of the traffic. This is one reason the average speed in India is 20 miles per hour, compared to the West's 60 miles per hour. The poor condition of roads translates directly to shorter vehicle lifespan, which increases operating costs and reduces efficiency. Off the highways, firms can only run trucks smaller than 20 feet. Anwaril Hoda, a member of India's Planning Commission, blames the government's lack of focus on infrastructure for stifling growth in manufacturing. As of now, India invests less than 4 percent of its GDP in infrastructure, compared to China's 9 percent.

• **Over-burdened ports.** India has a long coastline, but its port system isn't well utilized. Seventy percent of the seaborne trade is handled by 2 of its 12 major ports, while 180 minor ports go virtually unutilized. As a result, turnaround time far lags other global ports with vessels taking up to 3½ days to debark. Many of the secondary ports have infrastructure problems that aren't a quick fix. Even within its large ports, India can't support 6,000 TEU containerships, which make up 25 percent of today's shipping volume. In addition to constraining India's growth in offshore production, this makes it difficult for manufacturers hoping to import, rather than produce products for Indian consumers.

• **Non-existent warehouse standards.** There is virtually no complex distribution center set-up, no standards for suppliers, and little vendor compliance. Beyond that, firms will find there is little vacant DC space available. Firms entering the country will have to build this infrastructure, which will include supplying their own electricity, running water and road access.

• **Disorganized trucking operations.** Two-thirds of fleets have less than five vehicles, making it difficult for shippers to manage the plethora of carriers required to handle shipment volumes. Freight consolidators and brokers take a commission to provide truck owners with consignments, and corruption is rampant. Also, inadequate infrastructure causes equipment maintenance costs to be abnormally high. These increasing costs and dwindling profits leave little opportunity for small fleet owners to expand.

• **Limited technology basis.** Firms don't use technology to plan, execute or communicate logistics operations. Only an estimated 30,000 commercial vehicles have tracking systems, leaving the remaining companies that ship within the country without visibility or notification. Without notification, firms can't replenish or collaborate with suppliers until manual reports are tallied.

India's supply chains are built on slow transit networks fed by poor roads, ineffective ports and little distribution infrastructure.

India's anti-competitive position and fragmented government have continued to weigh its poor physical transport system down further. India has squelched advancement through:

A third world country income gap. India's workforce sits between two extremes. The country has a fast-growing middle-class population, propped on high demand for its technology skills. The market has become extremely competitive for IT and management employees—so much so that turnover is rampant. And yet, India is home to 40 percent of the world's poor, living on less than a dollar a day. India's workforce is mainly comprised of low-skill, low-pay and, often, illiterate workers. Within this group, well-established labor unions make influenced business the daily norm.

Anti-competitive regulatory processes. India's growth has been largely unplanned, growing from the bottom up. Restrictive labor laws—like requiring mid-sized companies to have government permission to fire an employee—make India a poor choice for industries like shoes and toys. And often improvements get tied up in political wrangling.

Retail Opportunity Opens Doors

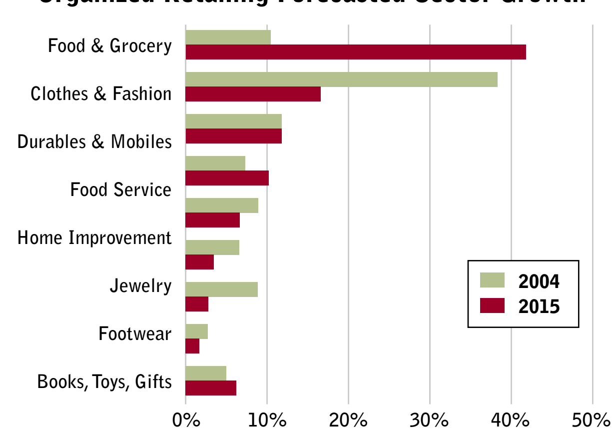
Even with India's booming consumer opportunity, its existing logistics infrastructure makes the opportunity seem insurmountable. A lack of organized retailing has made it difficult for the average company to reach Indian consumers. While Hindustan Lever, a subsidiary of Unilever, and The Coca-Cola Company have been extremely successful in penetrating the market, this strategy can only work for companies that sell a variety of everyday consumer products with widespread appeal. Why? Because to reach these consumers today, firms must operate luxury retail storefronts or methodically build out independent infrastructure to support relationships with each locally owned mom-and-pop store. In a similar fashion to the U.S.'s direct store delivery, companies like Procter & Gamble can attack the rurally-populated areas through vast private networks and localized delivery.

But this approach isn't cost effective for companies that carry limited brands or non-grocery items. For them, the opportunity to reach the Indian consumer through organized retailing is just beginning. By 2025, 70 to 80 percent of retail sales will come from organized retailing (Exhibit 1 shows organized retailing forecasts). So many are banking on the forecasted success of organized retailing, that they are aggressively investing private and corporate funds to create organized-retailing infrastructure before any demand is generated (Exhibit 2 shows India's supply chain rural vs. organized retailing). Reliance will not only operate grocery stores, but also create a vertically-integrated fresh food supply chain that handles distribution all the way to the growth source. And Sunil Bharti Mittal, head of Bharti, is developing a robust grocery supply chain in conjunction with Wal-Mart. A government pledge of $300 billion to address highways, power and other infrastructure issues also will help. Like no time before, foreign-branded retailers and manufacturers have an opportunity to reach India's consumers, bootstrapped, in part, on someone else's dollar.

The Opportunity

EXHIBIT 1

Organized Retailing Forecasted Sector Growth



Source: TSMG Analysis

EXHIBIT 2

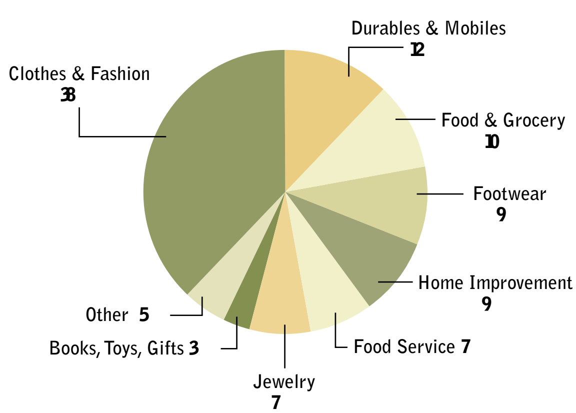
India's Unstructured vs. Organized Retailing

	Unstructured Retailing	Organized Retailing
Market Players	12 Million Independent Operators	10 Key Players
Consumer	Diversified Across Rural Areas	Concentrated in Urban Areas
Outbound Transportation	Direct-Store Delivery	Organized Distribution
Distribution Network	Owned by the Manufacturer	Established by the Retailer
Target Market	Neighborhood	Cities and Villages
Service Type	Home Delivery and Pick Up	Cash and Carry

For some industries, India's retail opportunity will happen quickly. Fashion items currently make up 50 percent of the organized retail market today. Tata Strategic Management Group forecasts hot industries in the next 10 years to include food, clothing and household improvement. In the near term, firms with limited presence in India should be cautious when considering a strategy to reach the rural population. In fact, the population concentration is shifting. Today, the top 35 cities currently represent 21 percent of the retail market, but will make up 40 percent by 2025. Of this fast growing urban population, nearly 80 percent will be the prime-targeted middle class[5] (Exhibit 3 shows India retail's hottest sectors). Companies seeking market share in these regions should aggressively pursue retail partnerships and create infrastructure that mirrors organized-retail supply chains. But how? While a lack of infrastructure is a burden, it's also an opportunity. Starting fresh means adopting the best supply chain management principles, practices and technologies without having to migrate or upgrade legacy approaches. Manufacturers and retailers should devise a strategy to align with the organized-retailing infrastructure build-out, focusing key activities on designing a multi-tiered distribution network, setting basic transportation goals and expectations, and establishing solid partnerships.

EXHIBIT 3

India's Organized Retail by Sector



Source: TSMG Analysis

1) Design a multi-tiered distribution network.

The key to a successful distribution strategy will be proximity. The tail that wags the distribution dog is transportation reliability. Transportation reliability or, more accurately, unreliability, will play a key role in determining the number of nodes required for distribution and the inventory to support it. Pure flow-through, or single-node distribution chains from plants directly to retailers, will be non-existent. CPG and retail firms will require significantly more infrastructure in India. For example, Reliance plans to build between 65 and 80 distribution centers to support its goal of $20 billion in revenue. That's more than half the DCs currently in Wal-Mart's supply chain, which supports over 10 times the revenue. Even as Reliance and Wal-Mart build distribution capability, manufacturers will have to match this distribution, not only at the local level, but also at regional and central points. These multi-echelon networks will replace lean, single-tiered U.S. philosophies based on just-in-time principles. Even firms with fast-moving goods will be required to set up decentralized, multi-tiered distribution networks that:

Rely more heavily on inventory. Let's face it, in the near term, India's supply chains will not be highly reliable. Shippers accustomed to reliability and speed will have to reset expectations. To reduce the impact of highly-variable transportation, brought about by inadequate logistical infrastructure, firms must adopt inventory strategies similar to those used in small-part service industries. While service parts industries use inventory to buffer demand versus transportation variability, the resulting network structure is the same. Firms will need to stage inventory throughout multiple echelons to reduce the impact of transportation variability and high transportation costs. This multi-echelon staging will create networks with many distribution points and double-handling of products. By investing in additional capacity flow, like dock-doors and staging floor space, firms will add more capacity for quick off-loading, reducing the impact of increased transportation investments and costs. The 'cringe factor' of this strategy is reduced, considering labor and warehousing combine for less than a quarter of India's logistics costs.[6]

Reside close to the market. To buffer lead-time variability, firms should set up final distribution within the independent, local markets they plan to serve. By starting in only a few highly-concentrated cities, a regionalized distribution scheme will enable firms to support branded stores or distribution operations, while building relationships with other local entities to expand their presence. As volume grows and transportation improves, firms can convert regional stocking facilities to flow-through and add centralized facilities as sourcing and stocking points. However, to support this more efficient multi-tiered strategy, firms will need to vie for space now, as land grab efforts increase dramatically. Just last year, retail real estate costs accelerated faster in New Delhi than anywhere else in the world. While hot urban areas include Hyderabad, Bangalore and Mumbai, second-tier cities are quickly becoming targets of mall openings, accounting for 40 percent of those scheduled through 2010. Longer term, about 200 cities with under 2 million in population and 500 additional rural towns will be used as retail hubs, each catering to over 1000 villages.

Use technology to provide visibility and collaboration. To manage the inevitable explosion in items they will eventually carry, organized retailers are investing heavily in leading-edge systems to create a data foundation for providing visibility and optimizing operations. Early-stage retail ventures are starting with leading-edge planning and execution applications from SAP, Oracle, JDA, Manhattan Associates and i2 Technologies. These systems will greatly aid supplier collaboration and enable manufacturers to share in real-time information flow. They also will make it possible for retailers to build accurate sales histories from day one, creating a foundation for more robust planning capabilities in network design, inventory planning and transportation modeling.

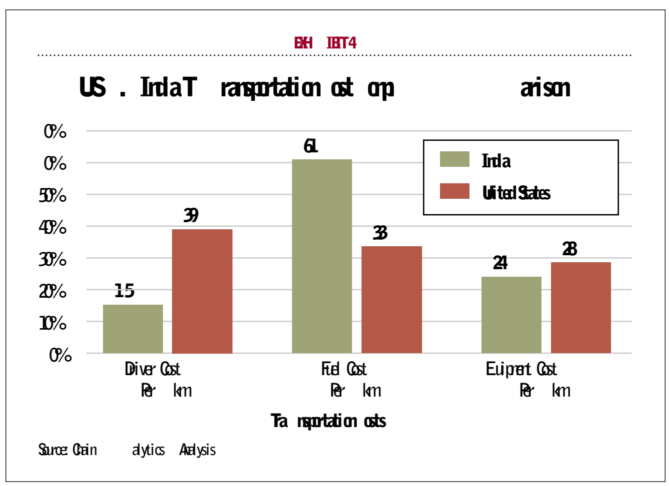
Select a key partner. Today, third-party logistics in India accounts for a quarter of its transport industry, but is expected to grow to over $125 billion by 2010. Including distribution, the 3PL market is expected to hit $3.6 billion by 2012. This growth is being fueled, in part, by large investments in automotive and telecom manufacturing. 3PLs like Menlo are not only managing distribution, but many are also offering innovative assembly and manufacturing manpower, as well. And industrial real-estate developers Prologis and Aeroterm are entering the market by building on speculation. The partial introduction of the Value Added Tax (VAT) in 2005 is expected to drive more industries toward using 3PL services, since it benefits large warehouses in hub cities — huge investments many companies will want the service providers to make.

2) *Set Basic Transportation Goals and Expectations.* You will not see large semi trucks belting down massive 10-lane highways in India. The transportation network consists of few highways, small trucks and constrained speeds. It is projected that highways will improve, as recently funded projects are completed. The government has pledged to build 10,000 kilometers of new roads and improve ports by 2010. But the bulk of the infrastructure will likely come from private or foreign investment. For example, Mukesh Ambani, Reliance's chairman, is building a new port city near Mumbai. His younger brother, Anil, is building a $4 billion suburban railway system in Mumbai. Several of India's other wealthiest business developers are focused on developing energy for the country. As infrastructure improves, new market entrants will need transportation strategies that:

Focus on high asset utilization. While labor in India is inexpensive, compared to developed economies in the West, equipment and fuel are not. Comparatively, labor is the highest cost component in the U.S., but in India, it's one-third the cost per kilometer of fuel alone (Exhibit 4 shows a logistical cost comparison between India and U.S.). Leveraging low-cost labor to maximize the utilization of assets will be a critical element to optimizing transportation strategies. By employing strategies such as "slip-seating," one driver can be changed-over with another driver when his maximum driving time is reached, since there's minimal financial impact to rest him for the day. Firms can utilize team-driving to improve not only equipment utilization, but also improve transit times and reduce variability.

Establish a core, senior logistics team on the ground. Delivery success in the near term won't be based on technology, but rather on relationships and communication. Firms won't be able to manage transportation virtually from an office in Chicago or Amsterdam. Instead, they will have to build a strong physical presence in each region. Companies like Samsung have successfully penetrated India by employing a core, experienced operations team in each region. This team must be familiar with the regional service providers, restrictions and statewide regulations.

Set rigid provider qualifications. India's carrier base will continue to consolidate and become more sophisticated as the shippers they serve invest and demand higher service. In 2004, DHL acquired Blue Dart to cover 13,000 locations in India. TNT and Fed Ex are aggressively entering the market and both have proven success rates creating global networks. In the meantime, companies need to put in place a set of rigid qualifications to set expectations for intermediaries and independent carriers. Firms need to rigorously qualify and measure carrier performance and communicate that data



back to carriers.

Establish infrastructure others can use. Firms should consider infrastructure investments as potential future profit centers. Manufacturers will have an opportunity to not only build infrastructure for themselves, but to create distribution and transportation services that others can use. For example, Mahindra & Mahindra, an automotive company, established a business to manage its complex logistics processes. To take advantage of this investment, they became a 3PL to others in need of logistics and distribution. Manufacturers can set up local distribution where plants are located and retailers can build infrastructure to support other non-competing retailers. To mitigate concerns about carrier reliability, firms can benefit by setting up dedicated fleets. To better utilize these assets, brokers and intermediaries can be leveraged to fill backhauls.

Invest early in technology. One thing is certain: India's telecom industry is extremely advanced compared to other industries. And while only 30,000 vehicles in the country have tracking capability, that's expected to grow a total of 100 percent over the next five years. Already, telecom and software firms are scrambling for a slice of the 1.6 million-vehicles-a-year market.[7] Firms investing in this technology for their dedicated fleets will find the infrastructure to support them substantial.

3) Focus on Establishing Solid Partnerships

Foreign firms that have been successful in India have done so with the right local support. Local relationships are the true key to success in India. Local companies can use their influence to make or break an initiative. To truly make an endeavor successful, firms should search for growing business groups with which to develop sustainable partnerships. To name a few examples, Tata Group is a diversified company known as a visionary in Indian business, and Bharti has proven it works well with multi-national partners. Firms need to look outside of traditional partnerships to companies in other industries like Telecom. Even with limited supply chain experience, these potential partners possess nationwide connections and have proven success in growing businesses in this market. And while the big three Indian families control 30 percent of the country's GDP, partnering with them can be challenging, since power and decision-making is confined to a few key players. To avoid failure, companies should look for firms with a proven track record of sustained partnerships.

The Growth Drivers

India's economic boom, fueled by a rising middle class and changing consumer needs, will accelerate in the next decade as:

• Significant economic reforms increase opportunity. India has been considered anti-foreign investment, but that is changing. In the last five years, India has entered numerous trade agreements and opened its borders to bilateral trade.[8] The issue on everyone's mind is FDI, which is currently allowed in services, manufacturing and wholesale trade but not fully in retail. In February 2006, the country relaxed its FDI for retail, now allowing 51 percent direct investment for single-brand retailing. Many see this opening the doors for more multinational brands to enter the increasingly consumption-focused country.

• Middle-class spending increases. GDP for 2006 was nearly $900 billion, up 9.2 percent from 2005, and is expected to rise 6 percent a year for the next decade.[9] This economic boom is responsible for an emerging middle class—some 300 million strong today. And by 2010, 49 percent of the population will be considered middle to high income.[10] With India's personal consumption rates at a staggering 67 percent of GDP—second only to the United States—this middle-class spending on luxury goods is creating a white-hot market.[11]

• The population continues to rise. India currently has the second largest population in the world, but it will surpass China as the largest by 2050, when it will reach an estimated 1.6 billion. Not only will India's population be the largest, but it also will be the youngest and possibly most highly educated in the world. By 2010, 45 percent of its population will be in the prime-spending demographic of 20-49 years of age. India will soon have more English-speaking computer programmers than the rest of the world combined.

• Automotive and technology drive exports sky high. Driven by a low-cost, highly-educated and skilled workforce, more and more multinational manufacturers are setting up Indian operations. This surge contributed to the growth of India's exports which increased 12 percent to $7.8 billion in 2006. Five years ago the auto industry's total revenues were $4 billion. This year, they will exceed $10 billion. In 2008, General Motors alone will import $1 billion in auto components from India and Hyundai and Suzuki will export cars in significant numbers. Other massive producers, like Nokia, ABB and Siemens, have all committed to Indian manufacturing.

Conclusion

The consumer opportunity in India is large, growing and relatively underserved. Companies can and should explore opportunities now, setting up regional strategies and logistics infrastructure now. Existing transportation infrastructure limitations will be a challenge, but low-cost labor will enable inventory-heavy cost-effective networks. Firms should quickly establish relationships with organized retailers, logistics intermediaries and distribution sources, but must effectively plan to manage operations within the country. To explore the India opportunity in the near-term as organized retailing markets form, firms should:

• Determine primary channels. Before entering India, firms must have a clear grasp of their go-to-market strategy. Are they going after organized retailers only, or do they want to reach 97 percent of the retail market through 'mom & pops'? Determining which channel is the best option for their products will allow them to create a logistics infrastructure that can optimally support their goals. To set a firm's channel strategy, they must define their regional priorities and set a planning horizon for expanding their presence. While quickly establishing relationships with organized retailers, logistics intermediaries and distribution sources will accelerate their demand opportunities, firms must be prepared to effectively manage their own operations within the country.

• Evaluate sourcing opportunities. Once a company's general demand targets and sales channels are defined, it must create a sourcing strategy for its products. Companies entering the market to serve Indian demand should evaluate local sourcing opportunities for production or postponing value-added activities such final assembly, configuration and packaging. These local capabilities will only accelerate India's viability as a cost- and service-effective source for other global markets. These opportunities will vary by product and region, because skill levels and production infrastructure are widely disparate across industries. India will improve as a sourcing option for offshore production as infrastructure improves. In both the near and long term, companies should evaluate opportunities in India in the context of defining the optimal global supply chain network.

• Design an optimal network. Once a firm has its sourcing and marketing strategies in place, it must design the optimal network infrastructure to support it including transportation, distribution, and technology. Existing transportation infrastructure limitations will be a challenge, but low-cost labor will enable inventory-heavy cost-effective networks. Firms should recognize that the supply chains they put in place in India, given the vastly different cost and lead times, will look very different from networks found anywhere else in the world.

Endnotes

1 Source: "Organized Retail in India: The Next Growth Frontier", Pankaj Gupta of Tata Strategic Management Group, 2005.

2 According to the press release, "Wal-Mart, Bharti to Open Stores in India", November 27, 2006, by Rajesh Mahapatra, it is stated that 96 percent of India's market is controlled by the 12 million 'mom-and-pop' stores, while 4% is controlled by organized retailers who are all single-brand retailers at that.

3 According to the press release, "Reliance Retail Plans 1 Trillion Rupee Sales by 2011", November 6, 2006 it is stated that Morgan Stanley predicts that hypermarket retailing will grow 15 fold to $60Billion by 2015.

4 More information can be found at http://www.indiafirstfoundation.org/ARCHIVES/news/05/july/b&e_m.htm.

5 According to Ashburton, India will experience a consumer boom supported by a sudden growth in demand for household products in the next few years. The number of people earning more than US$ 3,000 a year (about Rupees 1,35,000) – the definition of middle class in India—is set to explode.

6 From an internal Chainalytics study conducted in 2006.

7 Source: "India Logistics Landscape Report", Eye For Transport, EFT Research, November, 2005.

8 Source: India's Union Minister of Commerce & Industry.

9 Source: The Global Retail Development Index, AT Kearney, 2005.

10 Source: The Global Retail Development Index, AT Kearney, 2005.

11 "India: Asia's Other Superpower Breaks Out", *Newsweek*, March 6, 2006. Personal consumption rates are expected to rise to 67% of GDP second only to the U.S. at 70%, driving savings rates from 30 percent down to 18 percent in 2005.