



A STUDY OF CONSUMER BUYING BEHAVIOUR IN CONSUMER DURABLE INDUSTRIES IN INDIA

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Abstract

The consumer durables segment can be segregated into consumer electronics (TVs, LCD and audio systems etc.) and consumer appliances (also known as white goods) like refrigerators, washing machines, air conditioners (A/Cs), microwave ovens, vacuum cleaners and dishwashers. Over the years, demand for consumer durables has increased with rising income levels, double-income families, changing lifestyles, availability of credit, increasing consumer awareness and introduction of new models. Products like air conditioners are no longer perceived as luxury products. Most of the segments in this sector are characterized by intense competition, emergence of new companies (especially MNCs), and introduction of state-of-the-art models, price discounts and exchange schemes. MNCs continue to dominate the Indian consumer durable segment, which is apparent from the fact that these companies command more than 65% market share in the color television (CTV) segment. The biggest attraction for MNCs is the growing Indian middle class. This market is characterized with low penetration levels. MNCs hold an edge over their Indian counterparts in terms of superior technology combined with a steady flow of capital, while domestic companies compete on the basis of their well-acknowledged brands, an extensive distribution network and an insight in local market conditions. One of the critical factors those influences durable demand is the government spending on infrastructure, especially the rural electrification programme. Given the government's inclination to cut back spending, rural electrification programs have always lagged behind schedule. This has not favored durable companies till now. Any incremental spending in infrastructure and electrification programs could spur growth of the industry.

The report attempts to answer some of key questions conducted through market research, dealer survey and analysis of the secondary data in NCR , an attempt to understand and gauge the changing markets and mindsets and the critical success factors for the consumer durable industry in India.

Present Scenario

The consumer durables segment can be segregated into consumer electronics (TVs, LCD and audio systems etc.) and consumer appliances (also known as white goods) like refrigerators, washing machines, air conditioners (A/Cs), microwave ovens, vacuum cleaners and dishwashers. Over the years, demand for consumer durables has increased with rising income levels, double-income families, changing lifestyles, availability of credit, increasing consumer awareness and introduction of new models. Products like air conditioners are no longer perceived as luxury products.

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('000*)	2004-05	2012-13				
Category	Rural	Urban	All India	Rural	Urban	All India
TVs (colour)	48	304	121	185	723	347
Refrigerators	35	335	120	65	717	262
Washing machines	10	167	55	20	399	135
Sewing machines	71	172	100	85	152	103

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Category	Rural	Urban	All India	Rural	Urban	All India
TVs (colour)	5.9	14.9	20.8	25.7	43.5	69.1
Refrigerators	4.3	16.4	20.6	9.0	43.1	52.2
Washing machines	1.2	8.2	9.5	2.8	24.0	26.9
Sewing machines	8.7	8.4	17.2	11.8	9.1	20.5

Source: NCAER, * households

Competition in the Industry

The entry of multinationals like LG, Sony, SHARP, Samsung, Hairier, Thomson, Hitachi, TCL, Videocon etc into the Indian market, coupled with production capacities, is expected to

push supply and lower prices of LCD TV till festive season. Due to significant higher capacity and intense competition, the ability of players to increase prices will be extremely restricted. As a result, sales margins are expected to remain under considerable pressure.

The basis of competition for the CONSUMER DURABLE market in India is increasingly moving towards brand strength and distribution networks. Hence, advertising and marketing expenses are expected to remain significantly high for the players in this industry.

TOP CONSUMER DURABLE BRANDS	
• Akai	• TCL
• BPL	• Thomson
• Sony	• Onida
• Hairier	• Panasonic
• Hitachi	• LG
• Samsung	• Philips
• SHARP	• VIDEOCON

Major Players in the Market

LG-LG Electronics India Pvt. Ltd., a wholly owned subsidiary of LG Electronics, South Korea was established in January, 1997 after clearance from the Foreign Investment Promotion Board (FIPB). LG has been able to craft out in eight years, a premium brand positioning in the Indian market and is today the most preferred brand in the segment.

Various studies have shown that the consumer is well informed on the health awareness front. LG was one of the first companies who recognized the emerging change in consumer needs and decided to differentiate their products on the basis of technology, which appealed to the consumer on the basis of health benefits. Its vision was to become a 'Health Partner' for its consumers worldwide and therefore formulated its corporate philosophy to make peoples' lives better, convenient and healthier. The CTV range offered by LG has 'Golden Eye' technology, which senses the light levels in the room and adjusts the picture to make it more comfortable for the eyes. The entire range of LG air-conditioners have 'Health Air System', which not just cools, but keeps pollution out. Similarly, microwave ovens have the 'Health Wave System', refrigerators have the 'PN System', which preserve the nutrition in food and washing machines have 'Fabricare System', which takes



the health factor down to ones clothes. All the products offered by the company have unique technologies, developed by its R&D departments that give customers a healthier environment to live-in.

The year 2001 witnessed LG becoming the fastest growing company in the consumer electronics, home appliances and computer peripherals industry. The company had till the month of October 2001 achieved a cumulative turnover of Rs 5000 Crores in India since its inception in 1997, making it the fastest ever Rs 5000 Crores clocked by any company in the Indian consumer electronics and home appliances industry. Having achieved this milestone, LG achieved another benchmark with the first ever sales of One Lakh ACs (Windows and Splits) in a calendar year.

In Color Televisions having set the sales target of one million units of Color Televisions for 2002, LG has already achieved the one million mark in the month ahead of its target. In 2003, LG has emerged as the leader in Color Televisions, Semi Automatic Washing Machines, Air Conditioners, Frost-Free Refrigerators and Microwaves Ovens. In the year 2004, LGEIL achieved unprecedented sales efficiency both in Direct Cool and Frost Free segment and sold more than 1 million units of refrigerators outperforming industry expectations.

LG Electronics India is the fastest growing company in the consumer electronics, home appliances and computer peripherals industry today. LG Electronics is continually providing superior technology products & value for money to more than 50 lakh households in India.

WHIRLPOOL- The modern day Whirlpool Corporation was formed in 1911 as the Upton Machine Company. Its founders were Chicagoan Lou Upton, owner of a patent for a manually operated clothes washer that had never been produced and his uncle Emory Upton, a machine shop owner in the St. Joseph, Michigan area. The commitment to serve homemakers was in evidence even in those early days as Lou Upton challenged his uncle to power his washer electrically 'so the women of the country could be assisted in their washing chore'. In 1995, majority ownership was gained in the TVS joint venture and the two entities were merged to form Whirlpool of India Limited. Whirlpool was an unknown brand in the minds of the Indian

consumers. The task now was to establish it as a well known brand which would enable Whirlpool to claim its rightful position as the market leader in India- a position it enjoys in the U.S, Latin America and Europe.

The Whirlpool brand went from having no awareness to claim an awareness of up to 85% and a market share of 25%. Whirlpool has the distinction of being the most preferred brand in the washing machine category with market leadership in the segment it pioneered worldwide – the automatic washing machine. In less than three years, the Whirlpool brand had become a household name and has today emerged as a leader in the domestic home appliances market.

GODREJ- Everyday, every Indian encounters the 'Godrej' name sometime somewhere. Innovation has been the key. It is this spirit that has built Godrej and carried it for a hundred years. Taking it into diverse industries ranging from cupboards to soaps, hair dyes to edible oils, and packaged foods to refrigerators. In recent years several partnerships have been formed with international giants like General Electric, Pillsbury, Fiskars and Sara Lee, bringing Godrej membership in the Global village that will carry it forward into the 21st century

Godrej has always been a crusader for a better world with programs that benefit endangered forests, wild life and mangroves. Every year the Pirojsha Godrej Foundation dedicates funds towards promoting education, housing, social upliftment, conservation, population management and relief of natural calamities.

SAMSUNG-Samsung India is the hub for Samsung's South West Asia Regional operations. The South West Asia Regional Headquarters looks after the Samsung business in Nepal, Sri Lanka, Bangladesh, Maldives and Bhutan besides India. Samsung India which commenced its operations in India in December 1995, today enjoys a sales turnover of over US\$ 1Bn in just a decade of operations in the country. Samsung India currently employs over 1600 employees, with around 18% of its employees working in Research & Development. From being a virtually unknown entity in the Year 1995, brand Samsung today enjoys an awareness of over 95% and a positive opinion of around 80% in the country today (source: BAS 2004). Sports marketing and Entertainment Marketing have been the key elements of the Company's Brand



Marketing Strategy. Samsung has very successfully leveraged its association with Cricket and Cinema in the form of 'Team Samsung' and 'Samsung IIFA Award'. Samsung India sponsored the high profile 'Samsung Cup' Indo-Pak Cricket Series in the Year 2004.

ELECTROLUX-AB Electrolux is a world leading producer of appliances and equipment for kitchen, cleaning and outdoor use. Electrolux is also one of the largest producers in the world of similar equipment for professional users. In addition, we are the market leader in many of the individual product categories in which we compete.

AB Electrolux has two business areas, Indoor Products and Outdoor Products, both of which include products for consumers and professional users. Indoor Products comprises domestic appliances and floor care products for consumers, as well as professional food service equipment and commercial laundry systems for professional users. Outdoor Products covers garden care equipment for the consumer market; high-performance garden, turf-care and forestry equipment for professional users as well as equipment for cutting materials such as concrete and stone.

In 2004, Indoor Products accounted for 77% of Group sales and Outdoor Products for the remaining 23%. The Board of Directors of AB Electrolux has announced that it plans to divest the Outdoor Products operations during 2006.

Indoor Products comprise operations in appliances and floor care products, as well as the professional operations in food-service equipment and laundry equipment. Electrolux has leading market positions in white goods and floor-care products in both Europe and North America. The Electrolux Group is the leading white-goods producer in Australia, and has substantial market shares in this product category in Brazil and India, as well as significant market presence in China.

VIDEOCON-The Videocon Group is ever evolving, continuing to set trends in every sphere of its activities. The group enjoys an unassailable leadership position in color TVs, high-end audio systems, VCDs, air-conditioners. Washing machines, Trans chillers as well as no-frost refrigerators. After firmly entrenching itself in the field of consumer electronics and home appliances, the group has boldly ventured into

businesses that are crux of the nation. mainly, petroleum and power. The group has further ventured to leverage its strengths to boost the progress of the nation.

From Electronics to Energy today, Videocon is a household name across the nation India's No.1 brand of Consumer Electronics and Home Appliances, trusted by over 50 million people to improve their quality of life. Into Petroleum, Power and Entertainment its leading India into the future, rooted in the pioneering vision of a path breaker

Fired by a passion for innovation, Videocon has kept pace with the changing face of technology, constantly upgrading its manufacturing facilities to incorporate advanced technology and high standards of quality into its product range, right across the spectrum.

SONY-Sony's humble beginning started in Japan in 1946 from the sheer determination and hard work of two bright and enterprising young men. Both Masaru Ibuka and Akio Morita joined hands in making their dream of a successful global company a reality.

It was in 1946 that Masaru Ibuka and Akio Morita together with a small team of passionate and committed group of employees started to build "Tokyo Tsushin Kenkyujo" (Totsuko), or "Tokyo Telecommunications Research Institute" to the billion dollar global conglomerate that it is today.

One of the most recognized brand names in the world today, Sony Corporation, Japan, established its India operations in November 1994, focusing on the sales and marketing of Sony products in the country. In a span of 15 years Sony India has exemplified the quest for excellence in the world of digital lifestyle becoming the country's foremost consumer electronics brand. With relentless commitment to quality, consistent dedication to customer satisfaction and unparalleled standards of service, Sony India is recognized as a benchmark for new age technology, superior quality, digital concepts and personalized service that has ensured loyal customers and nationwide acclaim in the industry.

With brands names such as BRA VIA, Xplod, Sony hi-fi, Handy cam, Cyber-shot, VAIO, Walkman, Memory stick, PlayStation. Sony has established it self as a value leader across its various product categories of Audio/Visual Entertainment products, Information and



Communications, Recording Media, Business and Professional products. In India, Sony has its footprint across all major towns and cities through a distribution network comprising of over 5000 dealers and distributors, 240 exclusive Sony outlets and 19 direct branch locations. Manned by customer friendly and informed sales persons, Sony's exclusive stores 'Sony Center' are fast becoming the most visible face of the company in India.

Sony India also has a strong service presence across the country with 20 company owned and 190 authorized service centers and 16 exclusive demonstration centers. A distinctive feature of Sony's service is its highly motivated and well-trained staff that provides the kind of attentive and sensitive service that is rare today.

SWOT ANALYSIS

Strengths

- 1 Presence of established distribution networks in both urban and rural areas.
- 2 Presence of well-known brands
- 3 In recent years, organized sector has increased its share in the market vis a vis the unorganized sector.

Weaknesses

- 1 Demand is seasonal and is high during festive season.
- 2 Demand is dependent on good monsoons
- 3 Poor government spending on infrastructure
- 4 Low purchasing power of consumers

Opportunities

- 1 In India, the penetration level of white goods is lower as compared to other developing countries.
- 2 Unexploited rural market
- 3 Rapid urbanization
- 4 Increase in income levels, i.e. increase in purchasing power of consumers
- 5 Easy availability of finance

Threats

- 1 Higher import duties on raw materials imposed in the Budget 2007-08.
- 2 Cheap imports from Singapore, China and other Asian countries

SCOPE

In terms of Purchasing Power Parity (PPP), India is the 4th largest economy in the world and is expected to overtake Japan in the near future to become the 3rd largest. Indian consumer goods market is expected to reach \$400 billion by 2014. India has the youngest population amongst the major countries. There are a lot of young people

in India in different income categories. Nearly two-thirds of its population is below the age of 35, and nearly 50 % is below 25. There are 56 million people in middle class, who are earning US\$ 4,400- US\$ 21,800 a year. And there are 6 million rich households in India.

Current Scenario & Future Scenario

Rural sector offers huge scope for consumer durables industry, as it accounts for 70% of the Indian population. Rural areas have the penetration level of only 2% and 0.5% for refrigerators and washing machines respectively. The urban market and the rural market are growing at the annual rates of 7%-10% and 25% respectively. The rural market is growing faster than the urban market. The urban market has now largely become a product replacement market.

Future Scenario-With easy availability of finance, emergence of double-income families, fall in prices due to increased competition, government support, growth of media, availability of disposable incomes, improvements in technology, reduction in customs duty, rise in temperatures, growth in consumer base of rural sector, the consumer durables industry is growing at a fast pace. Given these factors, a good growth is projected in the future, too. The penetration level of consumer durables is very low in India, as compared with other countries. This translates into vast unrealized potential.

For example, in case of color televisions (CTVs), the penetration level of various countries is:

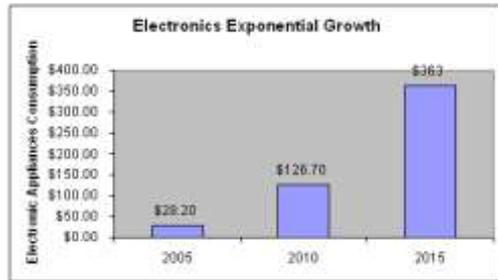
India	24%
Brazil	11%
China	98%
US	333%
France	235%
Japan	250%

Demand and Penetration Level of White Goods in India

	2004-2005	2011-2012	2012-2013
Demand	3.43 million	8.72 million	13.14 million
Penetration level	149 per 1,000 household	319 per 1,000 household	451 per 1,000 household

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In a study conducted by Frost & Sullivan and commissioned by India Semiconductor Association (ISA), the demand for Electronic Appliances is projected to grow exponentially at a compounded annual growth rate (CAGR) of 30%. In billions



PROBLEM IDENTIFICATION Manufactures, retailers, suppliers of all kinds of services, and many other organizations and industry like consumer electronics need certain kinds of information in order to be able to satisfy their customer's wants and needs and to design affective marketing programs while still earning a profit. I hence understand the importance and value of this industry.

RECOMMENDATIONS

The key growth drivers for the Indian consumer durables industry:

1 Rise in disposable income: The demand for consumer electronics has been rising with the increase in disposable income coupled with more and more consumers falling under the double income families. The growing Indian middle class is an attraction for companies who are out there to woo them.

2 Availability of newer variants of a product: Consumers are spoilt for choice when it comes to choosing products. Newer variants of a product will help a company in getting the attention of consumers who look for innovation in products.

3 Product pricing: The consumer durables industry is highly price sensitive, making price the determining factor in increasing volumes, at least for lower range consumers. For middle and upper range consumers, it is the brand name, technology and product features that are important.

4 Availability of financing schemes: Availability of credit and the structure of the loan determine the affordability of the product. Sale of a

particular product is determined by the cost of credit as much as the flexibility of the scheme.

5 Rise in the share of organized retail: Rise in organised retail will set the growth pace of the Indian consumer durables industry. According to a working paper released by the Indian Council for Research on International Economic Relations (ICRIER), organised retail which constituted a mere four percent of the retail sector in FY12 is likely to grow at 45-50% per annum and quadruple its share in the total retail pie 16% by 2013-2014. The share will grow with bigger players entering the market.

6 Innovative advertising and brand promotion: Sales promotion measures such as discounts, free gifts and exchange offers help a company in distinguishing itself from others.

7 Festive season sales: Demand for colour TVs usually pick up during the festive seasons. As a result most companies come out with offers during this period to cash in on the festive mood. This period will continue to be the growth driver for consumer durable companies.

8 Major hurdles and challenges plaguing the Indian consumer durables sector:

Threat from new entrants, especially global companies: The domestic consumer durables sector faces threat from newer companies, especially from global ones who have technologically advanced products to offer.

1 Rivalry and competition: Presence of a large number of players in the domestic consumer durables industry leads to competition and rivalry among companies. Threat from rivalry and competition poses a threat to domestic companies.

2 Potential markets remaining yet untapped: A large segment of the domestic market, mostly the rural market is yet to be tapped. Tapping this yet untapped and unorganized market is a major challenge for the Indian consumer durables sector.

3 Threat from substitute products/services: The domestic consumer durables industry is plagued by threats from substitute products. Easy accessibility to theatres/multiplexes, especially in urban areas has turned off the viewership from TV to a large extent. With the advent of a horde of FM radio stations, radio sets have now substituted TVs.

4 Customer power with respect to availability of choice: The availability of a wide product line



on account of most products being homogeneous, poses a threat for companies operating in the consumer durables sector. Customers have the choice of both domestically produced and imported goods, with similar features.

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