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SUMMARY

The consumer durables industry, which witnessed a double-digit growth in 1999-00, has not met the expectations of the players in the year 2000-01. The only two segments that performed relatively better were the air-conditioners and microwave ovens. The industry has witnessed increase in competition with the Koreans – LG and Samsung – consolidating their positioning. Today, the industry is faced with increasing inventory and inputs costs with the dollar becoming dearer.

The budget 2000-01 has not brought any major changes in the duty structure. The elimination of 10 per cent surcharge on custom duty shall result in a decline of 3-4 per cent on the effective custom duty across the various segments of consumer durables.

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INTRODUCTION

Consumer durables were once considered as a luxury targeting the upper-middle class for consumption. However, with increasing competitions, price wars, branding and promotion strategies, the concept has melted down to the masses and has become a part of the households necessities.

The concept of white goods was earlier propounded to include those household appliances that have a white enamel or coating on them. However, with the changing scenario, white goods now include items such as refrigerators, washing machines, microwaves, dishwashers, air-conditioners and vacuum cleaners.

The brown goods category includes consumer durables, which don't fall in the above white goods category. They mainly include television/videos and audios/DVDs.

There are separate notes on the key consumer durables segments – colour television, refrigerators, washing machines and air-conditioners. Some common factors/issues across these segments are presented below.

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MARKET

Size

The Rs 15,000 crore consumer durables industry consists of colour televisions, black & white televisions, refrigerators, washing machines, air-conditioners, microwave ovens, vacuum cleaners, audio systems, electronic appliances and water purifiers. The table 'Estimated industry size' shows the composition of consumer durables across these various segments.

Estimated industry size

Segment	2000-01E
Colour Television	6,000
B&W Television	1,250
Refrigerators	3,700
Washing Machines	1,500
Air-conditioners (windows and mini-split)	1,000
Audio systems	1,000
Microwave ovens, vacuum cleaners, electronic appliances and water purifiers	550

Rs crore

Source: Industry

The colour television is the largest segment and accounts for 40 per cent of the industry size followed by refrigerators, which contribute 25 per cent and washing machines, which account for 10%. The air conditioners account for seven per cent of the industry size but by building in the commercial market of central and packaged air-conditioners the market expands to Rs 1,800 crore. ETIG reports on consumer durables industry are limited to colour television, refrigerators, washing machines and air-conditioners.

Growth

The growth rate for the consumer durables industry is based on the demand from the domestic market, as exports are negligible. Discounting schemes and consumer finances aid in preponing the purchase decision thus, increasing growth in the short term. The advertising and marketing strategy adopted by players act as a major driving force to enhance the growth rate. The segment-wise industry sales in 1998-99, 1999-00 and 2000-01 as well as the growth rate are given in the table 'Estimated market size':

Estimated market size

Industry Segment	Market Size (mn units)			Growth Rate (%)	Market Size (Rs crore)
	1998-99	1999-00	2000-01E	2000-01E	2000-01E
Colour Television	3.8	5.0	5.0	Nil	6,000
Refrigerators	2.5	2.9	3.2	9	3,700
Washing Machine	1.4	1.5	1.5	2	1,500
Air Conditioners	0.2	0.2	0.3	37	1,000

Source: Industry

Demand drivers

There are certain factors in the consumer durables industry, which are considered as demand drivers. They are:

- The degree of distribution network in the market
- The advertising and marketing strategy adopted by the players in the industry
- The brand image of the product as perceived by the consumer
- The technology used by the company viz. state-of-the art technology or an older version
- The ability of the company to introduce newer products and newer product features
- The capability of the company to service its products
- The discount schemes and consumer finance facility available
- The market positioning of the product
- The cost competitiveness and pricing strategy of the company
- The financial strength of the players

Competition

With the entry of MNCs in India, the competition in the consumer durables segment has increased drastically. The competition is dependent upon brand strength and distribution network. In other words, the advertising and marketing expenses play a vital role in competition. As a result of the increased competitive activity, the advertising and marketing costs as a percentage to operating income has increased over the years. This ratio for the industry has increased from 4.4 per cent in 1993 to 6.7 per cent in 2000.

However, the export prospects are least or minimal because indigenous manufacturers do not possess adequate brand equity or excellent product quality. There are even constraints like transportation due to poor infrastructure and relatively underdeveloped markets in the neighbouring countries.

Consumer finance

Earlier, consumers used to purchase goods from their past savings. With the introduction of consumer finance, purchases are now made from the individuals future saving potential. Thus, consumer finance has become a major propellant for the growth of the white goods industry. Several Banks and NBFCs lend finances by charging interest of 20-25 per cent on internal rate of return basis. Some schemes allows housing loan borrowers the opportunity to fund consumer durable purchases at rates much lower than going rates in the market. Some finance companies also have zero per cent schemes where the manufacturers or the service providers factor in the interest burden. The cost to the companies is approximately 4.75 per cent of the MRP. Further, competition and technological advancements are the major factors behind the reduction of interest rates.

Today, approximately 25 per cent of the consumer durables are purchased using consumer financing with the share being 30 per cent in the urban areas. In other words, out of the Rs 12,200 crore consumer durables industry, purchases worth Rs 3,000 crore are done through consumer financing.

Among the various consumer financiers, Countrywide Consumer Financial Services does 60 per cent of the total deals. Following it, is Bajaj Auto Finance at 10-15 per cent and ICICI and Associates together at four per cent.

Though the over all interest rates have fallen down, the consumer finance rates for this industry has remained the same for the ticket value is very small.

Change in strategy

There is a shift in trend as the emphasis has moved from the manufacturing process to marketing and advertising strategy. In other words, the marketing game has become a vital factor for driving sales as against the manufacturing process of the products in the past. Players are now concentrating on the creation of brand image in order to economise their scale of operations and to increase their brand strength.

Because of this, most of the manufacturers like Videocon and Electrolux are acting as OEM manufacturers for manufacturing Samsung's and LG's refrigerators. Even, players have increased the percentage of their advertising and marketing costs as a percentage to operating income over the years. The ratio for the industry has increased from 4.6 per cent in 1993 to 7 per cent in 2000.

OUTLOOK

The consumer durables industry is expected to perform better in the forthcoming year 2001-02. The growth rate shall range between 10-15 per cent for CTVs, washing machines and refrigerators, while about 30 per cent for the air-conditioners. The internet TV shall not play a major role while the discounting and consumer finance schemes shall aid in driving the sales. The growth of this segment shall partial depend on the performance of the macro segment as it determines the demand from the rural segment.

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