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CONSUMER DURABLES RURAL INDIA CALLING

Rural India with as much as 70 per cent of the Indian population but low penetration level of consumer durables is the next target for companies.

The Indian consumer durables industry has witnessed a considerable change over the last few years. Changing lifestyle and higher disposable income coupled with boom in the real estate and housing industry and a surge in advertising have been instrumental in bringing about a sea change in the consumer behaviour pattern.

Consumer durables involve any type of product purchased by consumers that is manufactured for long-term use. As opposed to many goods that are intended for consumption in short term, consumer durables are intended to endure regular usage for several years or longer before their replacement is required. Just about every household contains at least a few items that may be considered to be of consumer durable nature. With India being the second fastest growing economy having a huge consumer class, consumer durables have emerged as one of the fastest growing industries in India.

Overview

Before the liberalisation of the Indian economy, only a few companies like Kelvinator, Godrej, Allwyn and Voltas were the major players in the consumer durables market, ac-



counting for no less than 90 per cent of the market. After liberalisation, foreign players like LG, Sony, Samsung, Whirlpool, Daewoo and Aiwa came into the picture. Today, these players control a major share of the consumer durables market.

With the increase in income levels, easy availability of finance, increase in consumer awareness and introduction of new models, the demand for consumer durables has increased significantly. Products like washing machines, air-conditioners, microwave ovens and colour televisions (CTVs) are no longer considered luxury items. However, there are still very few players in catego-

ries like vacuum cleaners and dishwashers.

The consumer durables sector is characterised by the emergence of MNCs, exchange offers, discounts and intense competition. The market share of MNCs in the consumer durables sector is 65 per cent. MNCs' major target is the growing middle class of India. These offer superior technology to the consumers, whereas Indian companies compete on the basis of firm grasp of the local market, their well-acknowledged brands and hold over wide distribution network.

However, the penetration level of consumer durables is still low in

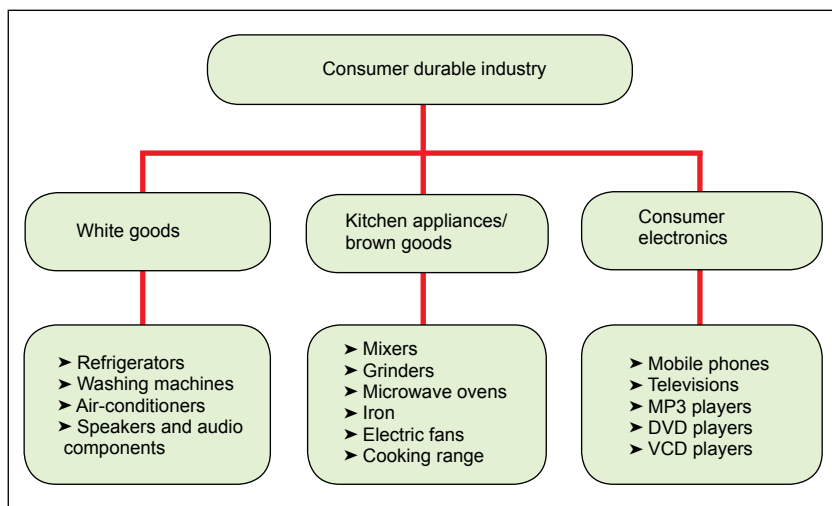


Fig. 1: Classification of consumer durables industry

rural India. An important factor behind low penetration is poor government spending on infrastructure. For example, the government spending is very less on electrification programmes in rural areas. This discourages the consumer durables companies to market their products in rural areas.

The consumer durables market is expected to grow at 30-35 per cent in 2010-11. It is growing very fast because of the rise in living standards, easy access to consumer finance and a wide range of choices with many foreign players entering the market. In terms of purchasing power parity (PPP), India is the fourth largest economy in the world and is expected to overtake Japan in the near future to become the third largest. The Indian consumer goods market is expected to reach \$400 billion by 2010.

The rural sector offers huge scope for the consumer durables industry, as it accounts for 70 per cent of the Indian population. Rural areas have penetration level of only 2 per cent and 0.5 per cent for refrigerators and washing machines, respectively. The annual growth rate of the urban and rural markets is 7-10 per cent and 25 per cent, respectively. The rural market is growing faster

than the urban market, and the urban market has now largely become a product replacement market.

India has the youngest population amongst the major countries. There are a lot of young people in India in different income categories. Nearly two-third of the country's population is below the age of 35 and nearly 50 per cent is below 25. There are 56 million people in middle class, who are earning \$4400-\$21,800 a year. And there are six million rich households in India.

Classification of consumer durables industry

The consumer durables industry consists of durable goods and appliances for domestic use, such as televisions, refrigerators, air-conditioners and washing machines. Instruments such as cellphones and kitchen appliances like microwave ovens are also included in this category. It is represented by major international and local players such as BPL, Videocon, Voltas, Blue Star, MIRC Electronics, Titan and Whirlpool.

The consumer durables industry can be broadly classified into two segments: Consumer electronics and

consumer appliances. Consumer appliances can be further categorised into brown goods and white goods.

Industry size, growth and trends

Some high-growth categories within this segment include mobile phones, TVs and music systems. More than seven million units of consumer durable appliances were sold in the year 2006-07 with colour televisions (CTVs) forming the bulk of the sales by accounting for 30 per cent share of volumes. CTVs, refrigerators and air-conditioners together constitute more than 60 per cent of the sales in terms of the number of units sold.

During February 2007, the single largest consumer durable product was colour TV with volume share of 30 per cent, followed by refrigerators and air-conditioners at 18 per cent and 13 per cent, respectively. Washing machines and other assorted consumer durables captured 5 per cent and 34 per cent share, respectively.

The consumer durables and electronics sector registered a 30 per cent growth during January-March 2010. According to the industry body, the total size of the consumer durables and electronics sector is around \$6.58 billion. While flat-panel displays registered a growth of 70 per cent, air-conditioner (AC) sales increased by 50 per cent. Additionally, the industry witnessed a 40 per cent healthy growth in home appliances business during the same quarter.

Trends favouring the growth

Increasing share of organised retail. While there are established distribution networks in both rural and urban India, the presence of well-known brands and organised sector is increasing. At present,

Table I
Consumption of Consumer Durables

<i>(Rs million)</i>			
Consumer durables	2007-08 consumption	2008-09 consumption	Growth (per cent)
Accumulator	337,047.7	488,783.1	45.02
Air compressor	698,358.2	693,542.8	0.69
Automobile parts	6,839,365.0	8,195,204.0	19.82
Bicycle and parts	747,052.9	955,415.6	27.89
Cutting tools	816,582.5	944,671.5	15.69
Dry batteries	49,832.4	70,815.2	42.11
Electric fan and parts	517,248.5	654,253.4	26.49
Electric manufacturers	1,021,537.0	1,563,227.0	53.03
Hand tools	776,971.9	894,814.6	15.17
I.C. engine and parts	3,622,765.0	4,873,022.0	34.51
Instruments of all types	3,239,055.0	4,655,216.0	43.72
Miscellaneous manufacturers	512,584.6	563,022.1	9.84
Office equipment	235,645.3	258,072.5	9.52
Prime mica and mica products	219,452.3	306,218.0	39.54
Pumps	1,298,550.0	1,785,009.0	37.46
Sewing machines, needles etc	70,251.8	119,433.4	70.01
Stainless-steel utensils	771,580.2	868,017.8	12.50
Steel files	98,755.6	127,618.6	29.23
Total	21,872,640.0	28,016,360.0	28.01

such as air-conditioners, washing machines and high-end CTVs, is a reflection of this phenomenon.

Entry of large players increasing the competition. With potential heavyweight retail stores like Croma, E Zone and Reliance Digital, the high-end segment has been exposed to a new form of purchase, allowing the consumer to feel/experience the product in a suitable ambience (significant in decision-making). Part of the growth momentum in high-end segments of consumer electronics could be attributed to the competitive evolution of organised retail stimulating the demand through exposure to high-end shopping experiences.

Rupee appreciation. Raw material cost constitutes more than 75 per cent of expenditure incurred by consumer durable manufacturers in India. The rapid appreciation of rupee vis-à-vis the US dollar is expected to ease raw materials costs for Indian manufacturers and benefit those addressing the domestic market.

Income growth and structural changes. Apart from steady growth in the income of consumers, consumer financing has become a major driver in the consumer durables industry. In the case of more expensive consumer goods, such as refrigerators, washing machines, colour televisions and personal computers, retailers are marketing their goods more aggressively by providing easy financing options to the consumers by partnering with banks. While this is aimed at the lower- and middle-income groups, the higher-income groups are also being attracted by the opportunity.

Other growth drivers for consumer durables industry

Rise in disposable income. The demand for consumer electron-

Table II
Rural Demand for Consumer Durables
(Per cent of all India)

Consumer durable	1995-96	2001-02	2009-10
Scooters	33.1	39.4	39.9
Motorcycles	47.3	39.8	48.3
Mopeds	52.7	58.2	57.7
Cars/jeeps	2.1	8.0	10.9
Automobiles	37.9	36.0	37.9
Television sets	54.0	54.5	44.2
White goods	23.8	23.9	23.7
Fans	50.0	56.9	56.7
Low-cost items	58.1	60.1	61.3

Source: NCAER's - Market Information Survey of Households

around 96 per cent of the more than 5 million retail premises of all types in India are smaller than 50 sq.m.

As a result, the organised retail industry is expected to cover a market share of 15 to 18 per cent by the end of 2010. This will have a

positive impact on the consumer durables industry, as organised retailing would not only streamline the supply chain but also facilitate increased demand, especially for high-end and branded products.

Narrowed price gap and increased affordability of products. Advanced technology and increasing competition are narrowing the price gap between products in this sector, which has driven demand and enabled high growth. Products that were once beyond the reach of the middle-class Indian are now affordable to many. Growth in the demand for products that were once considered luxuries,

SWOT Analysis of Consumer Durables

Strengths

1. Presence of established distribution networks in both urban and rural areas
2. Presence of well-known brands
3. In recent years, organised sector has increased its share in the market vis a vis the unorganised 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. The rising growth rate of GDP, rising purchasing power of people
2. The increasing popularity of easily available consumer loans and the expansion of hire purchase schemes
3. In India, the penetration level of white goods is lower than in other developing countries
4. Unexploited rural market
5. Rapid urbanisation

Threats

1. Higher import duties on raw materials imposed in the Budget 2007-08
2. Cheap imports from Singapore, China and other Asian countries
3. Heavy taxation in the country
4. Poor infrastructure; regular power supply is imperative for any consumer electronics product, but that remains a major hiccup in India

ics 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.

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

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-class consum-

ers, it is the brand name, technology and product features that are important.

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.

Rise in the share of organised 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 per cent of the retail sector in FY07 is likely to grow at 45-50 per cent per annum and quadruple its share in the total retail pie to 16 per cent by 2011-12. The share will grow with bigger players entering the market.

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

Festive season sales. Demand for colour TVs usually picks up during the festive season. As a result, most companies come out with offers during this period to cash in on the festive mood. This period will

Table III
Penetration of Consumer Durables

(Number of households owning goods per '000 households)

Consumer durables	1995-96	2001-02	2005-06	2009-10
Cars	16.1	30.0	50.2	91.4
Motorcycles	29.3	70.8	147.6	282.6
CTVs	72.0	145.6	213.0	314.0
Refrigerators	86.1	134.0	160.7	224.9
White goods	149.4	247.1	319.1	451.7

Source: NCAER's Market Information Survey of Households

Table IV
Key Consumer Durables' Share by Volume

Consumer durables	Share (per cent)
Colour television sets (CTVs)	30
Refrigerators	18
Air-conditioners	13
Washing machines	5
Others	34

Source: Cygnus Quarterly Report, August 2007

Table V
Category-wise Growth of Consumer Durables

Consumer durables	Growth (per cent)
Air-conditioners	20-25
Refrigerators	5-10
Microwave ovens	25
Washing machines	5-10
Colour televisions (CTVs)	15-20
Black & White televisions	-20
Clocks	10
Watches	10
VCDs	30
Consumer electronics (overall)	9

Table VI
Top 10 Players in Consumer Durables Sector

- Nokia India
- LG Electronics India Ltd
- Philips India
- Titan Industries
- Samsung India Electronics
- Whirlpool Appliances
- Siemens
- Sony India
- Videocon Industries
- Blue Star

Source: <http://www.naukrihub.com/india/consumer-durables/companies-list/top-players>

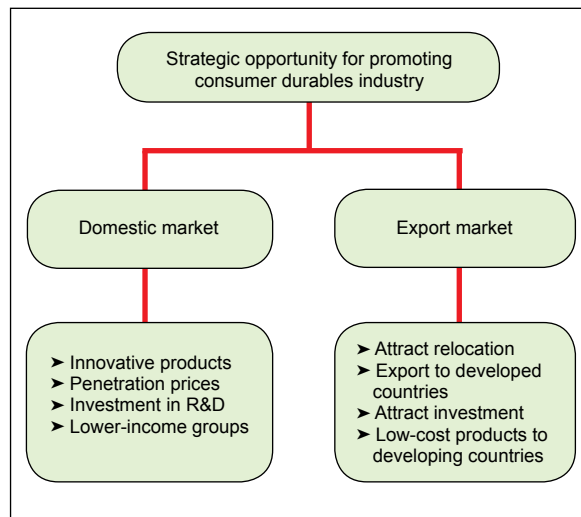


Fig. 2: Strategies for promoting the consumer durables industry

continue to be the growth driver for consumer durable companies.

Future outlook

As rapid socio-economic changes sweep across India, the country is witnessing the creation of many new markets and a further expansion of the existing ones. With over 300 million people moving up from the category of rural poor to rural lower middle class between 2005 and 2025, rural consumption levels are expected to rise to current urban levels by 2017. Indian incomes are likely to grow three-fold over the next two decades and India will become the

world's fifth largest consumer market by 2025, moving up from its position in 2007 as the 12th largest consumer market.

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 and growth in consumer base of the 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 compared to other countries. This translates into vast unrealised potential.

The industry expects the government to deepen its focus on the rural economy with greater fiscal incentives and rural employment.

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