CHAPTER - IV

CONSUMER DURABLES - COMMERCIAL IMPLICATIONS

Purpose and Overview:

In a market-driven economy, every business enterprise is expected to design its marketing strategy relating to components of market-mix in the light of consumer behaviour or characteristics and product characteristics. The consumer durables, in view of their peculiar characteristics, deserve a special attention while formulating any marketing policy. Against this background, the present chapter gives a synoptic view of strategies implications of consumer durables.

Strategic Implications of Consumer Durables:

The economic and marketing implications of durable goods are significant in view of the fact that demand for durable goods is likely to be more volatile. Demand for them moves rapidly or evaporates quickly in relation to business conditions. Two of the very significant features of the durable goods are: (i) they can be easily stored- and (ii) their replacement can be postponed. Hence, they create more problems of complicated nature in their demand analysis. Durable goods make an addition to the existing stock. Therefore, it is an accepted practice to separate the current demand for durable goods in terms of: (i) replacement of old products; and (ii) expansion of the total stock.
The most important feature of demand for durable commodities is that it consists of both replacement demand and expansion demand. "Sales of such commodities, therefore, are hyper-sensitive to small changes in demand.

Elasticity of demand is profoundly influenced for the durable goods by the storability and postponability of replacement. "A decision regarding the purchase of durables is viewed in the light of maintenance and operating costs in relation to future income. The demand for durables, therefore, depends not only upon present prices and present incomes but also upon current trends, the state of optimism, the rate of obsolescence and improvements in product designs. It is hypersensitive to small changes because current output satisfies only a small fraction of the total current demand." 

The implications of storability and postponability of durable goods are felt in the areas of inventories during the different phases of business cycles. "Expansion or contraction of inventories during booms and recessions is made possible due to their storability. Storability also affects the short run price elasticity because during a temporary fall in prices, buyers tend to build up inventories and reduce them when prices rise. Similarly, during a recession, people normally postpone the replacement of durables, but during periods of expected shortages, they enhance their replacement demand. In matters of replacement of durables, physical deterioration is not significant. It is the technological upheaval that produces a blast of obsolescence and plays a dominant role in demand as an important replacement determinant."
Consumer durables are characterised high unit cost, long life and consequently low frequency of purchase. Hence, a potential consumer is likely to seek more information and give a much greater thought to the purchase of a consumer durable than to a non-durable where the risk is considerably less and the decision does not entail much loss even if a mistake is made.4

Need for Distinction Between Consumer Durable and Non-durable Goods:

The distinction between the consumer durable and non-durable is very significant for marketers, manufacturers and also for the consumers. The various basic economic parameters like cost, price and demand for the consumer durables are substantially different from those for consumer non-durables. The distribution channels for these two types of commodities differ considerably. The buyer behaviour of consumers for the consumer durables significantly differs from that for the consumer non-durables. Consumer durables are generally high priced goods compared to lower unit price for consumer non-durable. "Consumption of non-durables provides a one shot service; whereas, the durables are consumed over several years. Demand for non-durables depends largely upon style, convenience and income. It is governed basically by the prevailing conditions. As against this, the demand for durables is a derived demand. These goods are mostly bought for future use and hence expectations play a dominant role".5
Characteristics of Consumer Durables:

Consumer durables exhibit some special characteristics which have significant economic and marketing implications for formulation of marketing strategies. Some of the major characteristics of consumer durables are:

i) **High Unit Cost**: The unit cost of most of the consumer durables is high compared to the unit cost of consumer non-durables. Such as refrigerators, motor cars, television, radios, tape recorder or two in-one, video cassette recorders, washing machines, etc. The unit cost of these articles is much higher as compared to the unit cost of consumer non-durables. Very few consumer durables may cost much less like the ball-pens, carry bags, knife or a book etc.

ii) **No-Repeat Sales**: The frequency of purchase of consumer durables is very low. They are used over a pretty long period of time. A scooter, or motor car or a television set cannot be purchased frequently as is the case of a match box.

iii) **Storability**: Consumer durables are non-perishable products. Hence, they can be stored over a long period of time. A TV set can be purchased and retained for a sufficiently long period of time. They may become obsolete only with the introduction of a new innovative product due to technical improvement. Similarly, a motor can may become obsolete with the introduction of new models of motor cars. However, obsolescence is not so frequent as the introduction of new product. It is a time consuming process.
iv) **Postponability**: The purchase of consumer durables is postponable since they are not essential goods. Demand for these goods is price and income elastic. A consumer can postpone the purchase of the durables if the price of these goods is high or if his income is moderate. They are not basic essentially articles for normal living. Because of high price and moderate income, purchaser makes detailed enquiry and weighs the pros and cons of purchasing these durables. Price and income constraints result in postponing the purchase of the consumer durables.

v) **Involves Much Thinking**: The buyer of the consumer durables has to think well before deciding to buy-the same. In addition to price and income factors, the purchaser has to think over other aspects related to the consumer durables. A purchaser of a motor car has to think over the various aspects like the model, and variety advantages, maintenance cost, fuel economy, availability of spares, resale value of the car, etc., before the actual buying of the car. The buyer has to make a thorough evaluation of the alternatives of the particular consumer durables taking into account the financial implications of the buying the particular consumer durable.

vi) **Service Backing**: Consumer durables involve after sales services unlike the consumer non-durables.

vii) **Volatile Demand**: The volatility of demand for consumer durables is due to the fact that the demand depends not only upon present prices and present incomes but also upon current trends, the state of optimism, the rate of obsolescence and improvement in product designs.

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viii) **Sales are Related to Established Reputation:** Consumer durables have a brand loyalty and greater appeal of the reputed firms. Buyers make necessary enquiry with the existing users of the products before going in for the costly durable goods. It is equally true that the quality of the product and the integrity of the producer has most powerful impact on the marketing of consumer durables.

**Marketing Issues of Consumer Durables:**

The important issues involved in the marketing of consumer durables relate to product pricing, distribution, personnel selling, merchandising, advertising, research and development, servicing and packaging.

(i) **Product pricing:** Price is an important variable in the marketing of consumer durables. Product pricing for consumer durables is largely cost-oriented. In markets characterised by oligopoly of a small number of suppliers, the price is set by the market leader and the others follow suit. The price of consumer durables includes the cost of servicing, replacement of parts, etc., during the guarantee period. However, in case of some consumer durables, price cut do occur and some firms sell their products below the cost to get rid of old stock. Certain electrical appliances have faced such situations where severe competition has brought in this typical situation due to recession and decrease in the discretionary income of the consumers. The recent policy of removal of quantitative restriction on a large number of imported goods, the foreign competition has added a new dimension in the field of product pricing of consumer durables. Imports of a variety of chinese
consumer durables like time pieces, kitchen wares, etc., have created a severe problems for high-priced domestic consumer durables. Induction of cost effective technologies to bring down prices would only help promote the competitive position of the consumer durables manufactured by the Indian manufacturers.

ii. Distribution:

Consumer durables need only a few sellers/dealers for the distribution of the products since there is little impulse buying. This is in contrast to the low cost consumer non-durables where the product has to be given the maximum exposure for greater convenience and for impulse buying. The marketer has to attempt to have his product stocked in as many outlets as is economically feasible.

"In case of consumer durables, there is little impulse buying and only a few dealers are necessary for the distribution of the products. Consumers are willing to travel greater distances and spend more time shopping for consumer durables. Often it is a sound practice to ensure that the number of distribution outlets is limited because the volume is not high enough to justify larger number of outlets". The consumer durables may also involve after sales services in which case a limited number of outlets staffed with persons well-versed in providing such services can be employed when the number of outlets is limited.

Distribution costs which include the cost of freight, ware-housing and inventory have gone up because of brand position costs and the increase in inventory carrying costs due to higher credit rates. Hence, the manufacturers
have been trying to rationalise their distribution procedures and they are buying to sell their products at areas closest to their production centres so as to minimum transportation costs.

iii. Personal Selling:

Personal selling is an important component of the communication mix that marketers have at their disposal for the marketing of consumer durables. Personal selling is undertaken either by the company's salesmen in the case of company showroom sales or by the shopkeeper in the case of smaller retail units. Personal selling is effective through careful training in the knowledge of product attributes and in the different techniques of persuasion, etc. Some leading companies have regular training programmes designed specially for such people.

iv. Merchandising:

Merchandising has little effect on the sales of consumer durables. It is important in case of consumer non-durables where there is good deal of impulse buying. However, better merchandising through strategic display does help bring in more customers to the store.

v. Advertising:

Advertising is an important item in the communication programme of a company. It is an economical way of informing potential customers about the introduction of a new product as well as arousing their interest in a particular
brand. Advertising itself may not result in a completed sale but it may bring a prospective customer into the store. The subsequent function of converting customer's interest to the sale of the product depends upon the salesman.

Heaven advertising by competitors makes companies selling consumer durables incurring large advertising costs. A reduction in advertising costs is possible only when competitors voluntarily agree to cut down their expenditures on advertising.

vi. Research and Development:

Manufacturers of consumer durables in India have not been investing much in research and development. R and D expenditures are on mini-scale compared to the outlays of manufacturers of similar products abroad. This is quite natural in view of the slow replacement of consumer durables in India. "Unlike in other countries principally the USA, frequent model changes have not become a part of the Indian marketing scene for consumer durables. At the same time, users of consumer durables in India tend to use their products for as long as possible; sometimes even up to a stage where high repair costs do not justify their retaining the old article in preference to buying a newer one.

vii. Service:

Servicing is an important component in the marketing of consumer durables. Consumer durables like refrigerators, radios, television sets, etc., require
servicing due to some technical break downs. Servicing provides satisfaction for
the customers and plays an important role as a part of the promotional compaign
aimed at prospective customers. Any indifference on the part of the dealers/
manufactures to promptly provide servicing to the customers of the consumer
durables may create an unpleasant experience and may affect the prospective
customers through bad word of mouth publicity.

viii. Packaging :

Protective packaging plays an important role in the marketing of
consumer durables. Cordboard packaging has replaced wood and paper thereby
reducing the cost of packaging. Packaging technology has made lot of advancement
and the manufacturers of consumer durables should keep abreast of such
innovations in packaging technology and adopt to such cost saving methods.
References:


6. Shivaki-Japan: Interview with the Director of Shivaki Industries Ltd. (Japan) in "Electronics for You" March 96, p.31.

