CHAPTER 10

FUTURE PROJECTIONS
AND TREND FORMATIONS
The air conditioning industry is likely to face major problems during the current year with the cutthroat competition, price wars and overall liquidity problems. Further, the liberalization policy and progressive reduction in the import duties is putting an additional burden. Despite several odds the new technologies and wide range of products has restricted to certain extent the adverse impact and the major players have notched up better performance during the first half of 2007-08.

The industry players have had to invest large amounts on sales promotion with an eye on semi-urban and rural areas. With the diminishing market share with the entry if foreign majors, the companies have to adopt newer marketing strategies by announcing various finance schemes like discounts and credit facilities.

The imported brands are getting more popular due to strong brand image and in the long run the margins are expected to be under pressure. The government is hoping to increase its revenue by Rs. 100 more through MRP schemes for the consumer durable industry.

The AC industry has seen good days during the initial period of liberalization. It achieved a compounded annual growth rate of 15.87 percent between 1992-95. The industry is divided into three segment i.e. window, split, packaged and chiller air conditioners. Voltas was a leader for quite a long time in the window ACs segment with a market share of 30 percent. This segment is achieving faster growth than other segments in volume terms and is likely to achieve 19 percent annual growth rate. There is a neck-to-neck competition between Career Aircon, which has established its products and achieved good performance.

Central AC system has gained a major role in the coming years with more and more investments coming up in the horticulture and food products industry. Further, demand from large establishments like hotels, showrooms, banks and other corporate offices are also likely to go up.

Unless the manufacturers embark on a strong marketing network coupled with a stronger brand image they will find it difficult to maintain margins. To grab the
future opportunities "in the Indian market, various foreign players have entered into collaboration agreements with Indian companies in the past.

Career Corporation of USA as promoted Career Aircon; Samsung has entered into the transport air conditioner segment through a joint venture with Air International Group, an Australian firm.

Over the year, the air-conditioning sector has been dominated by the huge unorganized sector, which had roughly command of 454 percent of total market share. Demand for air conditioners and other related has been on the rise. The reason is the fall in prices coupled with the increased purchasing power of the middle class and the perception that an air conditioner is no longer a luxury but a necessity. The boom in the industry has lured many players, including MNCs like Samsung, Electrolux, LG Electronics and Whirlpool to set up shop in India. Now all of those players are performing very well, especially L.G. is doing very -very well.

The production has increased and multinationals like Samsung and LG has started with massive advertisement campaign, which may increase the demand. As far as future is concerning few developments are important. Growing information technology industry will help demand for room air conditioner to grow. The popularity of the air coolers has declined recently to a significant extent and air-conditioned has once again procured the prime place. The middle class population is around 100 million numbers and with increase in installation base, market is likely to move towards saturation. The globalization of the economy will also contribute to the increase in demand for room air conditioners. Moreover wider availability of consumer finance will also motivate people to buy more of such equipment. Business houses and offices have accepted the new concept of automation and modernization, which is definite to increase the demand for air conditioners. Looking to all these factors, it is estimated that the demand for air conditioners from households sector will increase at the rate of 15% per annum, for business houses and offices at the rate of 21% per annum and from other end uses at the rate of 16% per annum. Replacement demand is very small till today and even in future it is estimated to be only 7% of the total demand. However any new change in technical parameters of appearance may incase replacement
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demand to higher level. Accordingly the demand for air-conditioners is estimated to increase at about 1.42 MN numbers by 2009-10.

10.1 TRACK RECORD OF AC INDUSTRY:

Chitrat Balasubramaniam had reported that market potential for AC is Rs.3000 crores in industry market, according to the finding given Mkinsey & Co. The report has brought out three fold bounds & barriers in the industry in term of cost such as life cycle cost of ownership of air-conditioner, running cost of electric & annual maintains cost. By keeping pace with solving these problems, the projected growth rate is 55% in household AC & about 20% in commercial air conditioning and refrigeration. Further, it is informed that the export market and survey business has potential to grow to Rs. 1200 Corers and Rs. 500 Corers respectively.

Prosenjit Datta and Navjit Gill reports that in ACs the overall satisfaction was dripping 95.5% for all brands. The business world survey shows that despite high overall score Indian consumer discriminate between brands they are extremely satisfied with and once they merely satisfied with. In consumer satisfaction L.G. holds 64.0%of its buyers found that the product extremely satisfied,Samsung holds 57.0%of its buyers found that the product extremely satisfied, Videocon holds 60.0%of its buyers found that the product extremely satisfied, followed by Hitachi 58.1%and finally VOLTAS with the lowest score 43.8% .In recommendation again Videocon holds 63%followed by Hatachi with 61.0%in second position and National with 43.5% .In Repeat purchase LG holds 48.3%customer, followed by VIDEOCON and Hitachi and finally VOLTAS WITH 37.1%

Let's begin with this joke of a couple traveling in a car wherein the hubby asks his wife to open the windows & to let the cool breeze in. But to his amazement receives a horrifying stringent answer, "Are you nuts why do you want to show the others that we do not have an AC fitted in?"

The air-conditioning industry in India has been growing at a steady rate of approximately 20% over the past few years. The year 2001 saw spiraling growth
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in the sales of window and split ACs. The boom has further increased awareness and demand for energy efficient systems, indoor air quality, and ambient systems, precision air-conditioning systems, CFC free air-conditioning and has added to the rising volumes. The reduction in prices (AC prices have already recorded a 5-6% drop since Jan '03 and are expected to drop further. Average prices for air-conditioners in India have dropped by about 20% over the past two years, thanks to new companies entering the fray, making them more accessible to consumers.), attractive finance schemes, extended warranties on critical components and increased awareness about buying branded, energy efficient, quality air-conditioner have further contributed to rising volumes.

Almost 70% of sales are expected during the March-May period, the peak season for AC sales. Growth rate for calendar year'03 for the Rs.1, 400-crore industry is expected to be around 10-12% against 30% recorded in '02. LG expects industry sales to rocket by over 20pc annually over the next three years.

Air-conditioner companies see India as a potential goldmine as it offers a winning combination of rising disposable incomes and AC ownership levels of just 1.1 percent of households.

Earlier people used to go to buy the AC because of the urgency of the product rather than being compelled by ad promotions. Of late, the trend has been reversed and revolutionized. This is fast losing the status of a luxury; it is becoming more of a necessity. This trend has been observed in the past few years. Thanks to some aggressive ad and promotion by LG (now a market leader). It began by launching flashy and eye-catching advertisements capitalizing on health care. To supplement the excellent ad campaign were some lucrative promotional schemes focusing both on the dealers and the customers.

10.2 EMERGING MARKETING TRENDS AND LIKELY FUTURE:

- Overall GDP growth indicate growth of AC industry:

The industry has been growing at a compound rate of 25 percent for the past few years and this pace is expected to continue for the next few years. Recent
projections indicate that India will have a sustained GDP growth at over 6 to 7 percent in the next few years. The GDP growth will be accompanied by increased government spending improved industrial activity, rising disposable income and large consumer credit. All these factors will give a push to the demand for ACs. All the major players expanding capacities and some new entrants setting up new plants, supply is not expected to pose any problem.

- **Low Penetration level is a Pointer to the vast potential:**

At present, the penetration level for Air-conditioners in India is a minuscule 2 to 3 per cent. This figure compares unfavorably to those prevailing in countries like the USA (35 per cent) and Singapore (30 Percent). Again, the penetration level for air-conditioners in India is quite low, compared to other consumer durables – refrigerators (11 per cent), TVs (35 percent), and cars (6 percent). It indicates an opportunity in the coming years. A 25 per cent penetration of middle and high-income households over the next five years is a reasonable projection. This will mean a 1.5 million-unit market from the household segment alone. As the number of households in this income bracket is growing at around 6 percent per annum, a steady growth can be expected in this segment.

- **Country's climate, and the environmental conditions in the cities, will boost demand:**

India is a country situated in the tropical zone with the weather being warm to hot in most parts of the country for most part of the year. Average temperatures are in the range of 30 degrees centigrade and peaks are 45 plus. Thus coupled with the high humidity levels in most parts of the country, provides a captive market for ACs. In other words, the country's climate will be a natural booster of demand for ACs in India. Secondly the environmental conditions in our urban centers are becoming increasingly polluted. At the same time awareness about benefits of working in a controlled environment is on the rise. As a combined effect of the two factors, the demand for ACs is bound to grow.

- **Growth in IT, telecom, transportation and agri-infrastructure will ensure growth of the AC industry:**
In India, the IT sector is in a galloping growth phase. The central government is offering many incentives to the IT sectors. For example, the many subsequent union budgets provided incentives in terms of institutional credit and tax relieves including the abolition of service tax on exports. The growing IT sector is bound to spend heavily on air-conditioning infrastructure.

- **Growth in telecom:**

  Telecom, which is another sector will also support the growth of the AC industry. The telecom sector is in the process of setting up a big infrastructure that involves a lot of air-conditioning. The new telecom exchanges that are to be set up will be unmanned shelters with high amount of heat generated from machines. This means greater demand for air-conditioning.

- **Transportation sector:**

  In the coming years, air-conditioning has a lot of scope in the transportation sector too. Today, people are willing to pay extra fare for bus, car or rail journey in air-conditioned comfort. Also, passenger car manufacturers are wooing the Indian buyer with several models of family/small AC cars. There is thus a great opportunity for AC players in the transportation sector.

- **Horticulture:**

  At present, Indian horticulture endeavors (fruit, vegetables and flowers) suffer greatly due to lack of adequate cold storage facilities. The absence of proper cold chain arrangement for increased shelf life not only leads to post-harvest losses in these products, but also restricts their exports. Many programs are now underway for rectifying this inadequacy. And, they involve substantial investments on terminals with controlled environment at airports and seaports and cold chain facilities across the country.

  Some of the last union budgets had provided for a credit linked subsidy scheme for setting up 1.2 million tones of new cold storage facilities and for modernizing 0.8 tones of existing facilities. The AC industry is thus full of opportunities in the sector.
India, the new theatre of activity, for MNC players in ACs:

With the developed markets like Japan and US saturated, India likely to be the new theatre of activity for global giants. India is one of the major markets still remaining to be conquered.

10.3 TECHNOLOGY TRENDS IN THE INDUSTRY:

On the technology front, the following are some of the key issues for the air conditioning industry in the coming years.

- Stricter norms regarding provision of improved indoor environment/indoor air quality.
- Reducing or eliminating the use of ozone depleting, CFC substances.
- Minimizing cost of the Ac unit, as well as the operating costs.
- Curtailing power consumption in particular
- Vapour adapted machines (VAMs) may find favour as a cost- effective and environment friendly alternative to central plants.

10.4 A SHAKE-OUT / CONSOLIDATION LIKELY IN THE NEXT FEW YEARS:

We saw earlier that the Indian AC industry is a highly fragmented industry. There are far too many players seeking an existence in the industry. And, many of them do not have the benefit of scale. We also saw that there is a substantial lover-capacity in the industry. The industry thus is a fit case for a shakeout and consolidation. In the coming years, the marginal players may disappear from the scene and only those having strong brand names/brand building ability, size advantage, technology clout, financial strength, power and marketing credentials may survive. Even among the stronger ones who survive, there can be further consolidation through M and as and takeovers.
10.5 ANALYSING UPCOMING COMPETITION:

Threat of new entrants: In recent years, with the steep growth in demand for air-conditioners, the industry has been attracting many new comers, Indian firms as well as MNCs. Godrej and Kirloskar are among the Indian companies who have entered the industry recently. Samsung, LG, Hitachi, GE Whirlpool and Electrolux are among the MNCs who have entered the industry in recent years. Some more MNCs, may join the list soon. The MNCs, with their technology, Scale of operations and brand power, are expected to radically alter the industry structure and nature of competition. Since the industry is reasonably attractive and since the entry barriers are not formidable, threat of new entrants will be fairly strong in the industry. However, all and sundry cannot enter the industry. The case of the MNCs is different; they are already in the business globally; they have the required clout, including the technology. Relaxation in imports of consumer durables will amount to another part of the threat from new entrants.

Bargaining power of customers: In the air-conditioner industry, bargaining power of customers is generally limited, but varies from category to category. In the RAC category, the household buyers, who constitute a significant component of users, are not in a position to exercise much bargaining power. In the past, the availability of lower priced units from small-scale producers in the unorganized sector gave them some bargaining power with the players in the organized sector. In recent years, with the narrowing of the price gap between the two sectors, this aspect is losing much of its relevance. The institutional buyers exercise a bargaining power; they enjoy a clout in view of their large -scale purchases and their clout increases with the increase with the increase in the number of manufacturers/brands and the overall increase in supply. In the central AC category, the users- the whole lot of them, belong to industry and other institutions- do have a bargaining power.

Bargaining power of suppliers: Compressor being the major component of the air-conditioner, accounting for 65per cent of the end price, compressor suppliers do have a bargaining clout in this industry. So far, Kirloskar, Carrier Aircon, and SIEL and Tecumseh India have been the domestic source of supply for compressors
and they exercise some influence on the industry. Carrier, in particular, has been enjoying a strong clout as a large producer of compressors. Seeing the advantage in having in-house access to this critical component, many other air-conditioner producers are planning captive production of compressors. This general trend of backward integration into the supplier's arena will change the nature of influence from the suppliers' side in the coming years.

Rivalry and jockeying for position among existing players: Porter uses this expression to denote what is normally understood as competition, or, competitors proper.

Threat from substitutes: Competition from substitutes is a relevant issue for ACs. Air coolers, a product category growing in popularity in recent years, are a substitute. It does offer some amount of competition to air-conditioners. Though, the two products do not serve the same purpose, being in the related category and substantially cheaper, coolers do affects sales of ACs. Recent years have witnessed a spurt in the sale of air coolers in the country. Consumers in smaller towns in particular, go in for coolers. For many years, Symphony was the main player in air coolers. With the recent entry of some powerful players like Ken star, the business of air coolers may grow in strength and pose a greater threat to ACs in the coming years.