CHAPTER # 2

OVERVIEW OF WHITE GOODS INDUSTRY
2.1 Introduction

Although the consumer durable sector does not count among the core sectors of the any economy including India's, it is immensely significant being a nearly precise indicator of the nation's economic well-being, especially as a pointer to the distribution of prosperity among the different income segments.

This industry typically behaves like a fashion industry. The consumer's taste changes rapidly. The average Indian consumer wants newer models with the latest features. The competition is on features differentiation, time to market, price, and promotion, basically on every front. The dealer- push, brand-pull and government initiative plays crucial role for the growth of the industry.

2.2 About the Consumer Durables Industry

A 'consumer durable' is defined as a consumer good that is not immediately consumed, but, renders a stream of services, usually over a period of years. However, there is no inclusion of the continuing benefits of consumer durable ownership in national income accounts and no allowance for their depreciation. Thus, although consumer durables resemble the fixed capital used by firms, they are classified as part of consumption.1

By definition, the term 'consumer durables' would mean all consumer goods that are not for One-time consumption, but whose utility is felt over a period of time. Therefore, the term consumer durables would seek to include all consumption items other than those meant for immediate consumption. To that extent, the list of durable items considered in this report is, by no means, exhaustive. However, they do constitute a reasonably large part of the sector, in terms of both size and significance. Moreover, as the study bases itself on information (both qualitative and quantitative) available only in the public domain, the report hazards no inference on product
segments that are either not well documented or about which the information available is, at best, obscure.²

The consumer durables segment can be segregated into consumer electronics (TVs, VCD players 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.³ The consumer durables industry in its formative years saw a lot of Indian brands dominating the market scenario. But over the years, multinational players have made significant inroads into the market.

2.3 About the White Goods Industry

White Goods Industry

The consumer durable industry has been classified into three categories namely consumer electronics, white goods and air conditioners.⁴

White goods, also frequently referred to as major appliances, are a category of durable goods composed mostly of ferrous metals. In addition to ferrous metals, white goods can also contain varying amounts of other metals, glass, plastic, and an assortment of other materials.⁵

2.3.1 Industry Classification

White Goods

White goods are defined as refrigerators, water heaters, freezers, unit air conditioners (Separated from White Good Industry List in the ICRA Published Report 2005 and 2006), washing machines, dishwashers, and clothes dryers, and similar domestic and commercial large appliances. Discarded white goods have some market value as scrap metal.⁶

Product Categories and Details

Looking to the wider scope and perspectives many researchers and experts have also included the following products in the list of white goods category based on area of research, usage of the products, and other important features.
General Product Categories
White goods comprise major household electrical appliances including Vacuum Cleaner, Washing Machine, Microwave Oven, Bread Maker, Dishwasher, Freezer and Refrigerator, Stove, also known as range, Cooker, Oven, and Cooking Plate, Ironing clothes home appliance, Furnace, also known as a central heating boiler, Water heater and some times includes Air conditioner too.

List of Selected White Goods
The top ten among white goods in the middle income consumers’ wish list include Colour TV, Home Theatres, Air-conditioners, Inverters, Microwave Ovens, Cooking Gas, Refrigerator, Food Processors, Washing Machines and Mobile Phones.

From the above mentioned white goods, the following have been short-listed for the study under three different categories namely entertainment, cleaning and preservatives.

<table>
<thead>
<tr>
<th>Industry Category</th>
<th>Product Category</th>
<th>Products under Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Electronics*</td>
<td>Entertainment</td>
<td>• Colour TV (CTV)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Home Theatres (HT)</td>
</tr>
<tr>
<td>White Goods</td>
<td>Cleaning</td>
<td>• Washing Machines (WM)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Vacuum Cleaner (VC)</td>
</tr>
<tr>
<td></td>
<td>Preservatives</td>
<td>• Refrigerators (REF)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Food-Processors / Juicer Mixer (FPJM)</td>
</tr>
</tbody>
</table>

Note: * Products under Consumer Electronics category are also considered under white goods category as the definition of white goods encompasses the former.

(i) - Colour Television (CTV)
A television image is created by beams of moving electrons that collide with the inside front surface of the television picture tube and cause it to glow. A magnet held still near the picture tube affect the image that forms. The Electrons collide with phosphors inside screen which are electronically excited and thus emit their excess energy as light. Different phosphors emit different colors. Some of the features of
CTV includes Broadcast flag, CableCARD, Digital Light Processing (DLP), Digital Rights Management (DRM), Digital television (DTV), Digital Video Recorders (DVR), Direct Broadcast Satellite TV (DBS), DVD, HD DVD, Blu-ray Disc, Flicker-free (100 Hz or 120 Hz, depending on country), High Definition TV (HDTV), High-Definition Multimedia Interface (HDMI), IPTV, Internet television, Laser TV display technology, LCD and plasma display flat screen TV, SED display technology, OLED display technology, P2PTV, Pay-per-view, Personal video recorders (PVR), Picture-in-picture (PiP), Place shifting, Remote controls, The Sling box, Time shifting, Video on-demand (VOD), Ultra High Definition Video (UHDV) and Web TV.  

(ii) - Home Theatre (HT)

It seeks to reproduce cinema quality video and audio in the home. The video aspect usually involves a large-screen and/or high definition television or a projection system with movie screen to project the image on. Quality audio reproduction is usually achieved with a high fidelity surround sound system.

Technically, a home theatre or home cinema could be as basic as a simple arrangement of a television, VCR, DVD, and a set of speakers. It is therefore difficult to specify exactly what distinguishes a "home cinema" from a "television and stereo". Most people in the consumer electronics industry would agree that a "home theater" is really the integration of a relatively high-quality video source with multi-channel electronics and speakers. Even if households have the system set up for home cinema it is common only to use the speakers integrated within the television rather than to play the sound through the surround sound system. This is because surround sound loses its impact with material which is not recorded in a way suitable for surround sound. Films, drama and sports tend to be optimized for surround sound whereas news and daytime TV provide no particular advantage.

(iii) - Washing Machines (WM)

Mostly washing machines are lined with a protective anti-bacterial additive. This lining totally stops grime fungus germ and other microbial elements from building an empire in the wash tub. It works on the microbial cell wall and disrupts the metabolic process of germs. Thereby, retarding their ability to function grows and reproduces
giving a clean, germ free wash. Generally, it is available in two types of (i) Semi-Automatic and (ii) Fully Automatic washing with different technological base.

(iv) - Vacuum Cleaners (VC)
A vacuum cleaner is a device that uses an air pump to create a partial vacuum to suck up dust and dirt, usually from carpeted floors, but also from tiled floors and other smooth surfaces. Most homes with carpeted floors in developed countries possess a domestic vacuum cleaner for cleaning. The dirt is collected by a filtering system or a cyclone for later disposal. The electric vacuum cleaner is one of the single greatest appliances invented for the common housewife. It allowed for more time relaxing and less time cleaning. "no more shaking of small scatter rugs out the window, no more beating of carpets and rugs in the backyard during those long-gone annual festival cleanings."

(v) - Refrigerators (REF)
Refrigerators are one of the most sought after appliances in Indian middle class homes. The refrigerator market has two segments: Direct Cool and the relatively new Frost-Free type. The market for refrigerators in 2006-07 was about 6.5 million units. The growth of refrigerator segment is projected to be between 18 to 22 per cent over the next 5 years. A critical success factor for the refrigerator market, given its widespread use, is deeper reach into the market and increased penetration. Recently, the market is getting reinforced by the replacement segment as well. Generally, it is available in different sizes (broadly classified as mini, micro and large) including less than 160-165 litres capacity, 165-180-190 litres, 190-220-230 litres, and 230-25-300 litres and above. The present day sophisticated refrigerator is a relatively modern invention among kitchen appliances.

(vi) – Microwave Oven (MO)
A microwave oven, or a microwave, is a kitchen appliance that cooks or heats food by dielectric heating. This is accomplished by using microwave radiation to heat water and other polarized molecules within the food. This excitation is fairly uniform, leading to food being adequately heated throughout (except in thick objects), a feature not seen in any other heating technique. Basic microwave ovens heat food quickly and
efficiently, but do not brown or bake food in the way conventional ovens do. This makes them unsuitable for cooking certain foods, or to achieve certain effects. Additional kinds of heat sources can be added to microwave packaging, or into combination microwave ovens. It is available in different sizes.

(vii) - Food Processor / Juicer Mixer / Grinder (FPJMG)
The types available are Mixer Grinders and Juicer Mixer Grinders. Mixer Grinders refer to the various electric kitchen machines that are used to beat, mix, whip foods or reduce to smaller particles. Juicer Mixer Grinder performs the function of a Juicer and a Mixer Grinder

2.3.2 Evolution and Growth
- Historical Evolution & Global Perspectives

Consumer Electronics / White Goods

CTV
The history of televisions can be traced back to 1888 with the discovery by German physicist Wilhelm Hallwachs who demonstrated the possibility of using photoelectric cells in cameras. In 1897, the Cathode Ray tube (CR1) was invented by the German, Karl Braun, and in 1904, the first colour television system was proposed, based on the principle of scanning three primary colours in 1907, the American engineer Lee Do Forest invented the triode electron tube. In 1923 itself, Philo T. Farnsworth developed an electronic camera tube, called the "kinescope". By 1933, a complete electronic system was being employed with a resolution of 240 lines. By 1934, two British electronic firms, EMI and Marconi, created an all electronic television system.

Three years later, in 1939, broadcasting started in the US. The National Broadcasting Company (NBC) started scheduled regular broadcasts to only 400 sets in the New York area. With the start of World War II, television production stopped in the US. In 1947, all proposals for colour television were rejected. However, black and white sets were manufactured in great quantity. Coupled with the post-War economic boom, the sales of television sets soared. It took until 1954 for the National Television System Committee (NTSC) of the US to set the standard for colour broadcast television. Japan adopted the NTSC system in 1960, but it wasn't until 1967 that the former USSR and France adopted the 8ECAM system (System Electronic Colour Avec
Memoire or Sequential Colour with Memory) that featured less colour distortion than the NTSC system along with 625 lines at 25 frames per second. Western Europe, India, Korea, Australia, South Africa, UK, etc., use a system called phase alteration line or PAL.

In 1963, the optical videodisc, the basis for today’s Laserdisc and DVD, was first demonstrated. In 1964, the first commercial device with an integrated circuit (IC) was developed and the in 1965 first portable consumer video recorder was introduced by Sony Corporation of Japan.

By 1970, television had become the primary information and entertainment medium in the US. In 1968, NHK (Nippon Hosokyo) Science & Technical Research Laboratories in Japan pioneered research on HDTV systems. In the early 1970s, exhaustive study eventually led to the conception of a new generation of television. The year 1986 saw the advent of satellite-fed cable TV programming in the US. In 1989, Japan became the first country to go on the air with regular HDTV telecasts.

The 1990s saw worldwide activity towards the adoption of digital Television (DTV). In 1993, the all-digital system was proposed in the US. In 1998 itself, the first HDTV sets and flat-screen, plasma TVs were sold at retail in the US. In 1999, the first colour screen hand-held personal computers were launched. In 2001, Philips Consumer Electronics won an EISA Award for its new 32-inch plasma display set.

**HT**

The origin of the audio system can be traced back to 19th century with the invention of phonograph. It was invented by Thomas Edison in 1877 which was based on wax cylinder. With more durable substances, mass reproduction from master disc was done in 1888. In 1925, electronic recording was done with the invention of microphone. The first durable Magnetic Recording Tape was devised in 1935 followed by a long playing record in 1947. The first audio cassette was devised by the Dutch audio major Philips in 1963. In 1979, Sony invented Walkabout, which was renamed Walkman. For the first time, high-quality audio became miniature and completely portable. 1982, Dolby Laboratories introduced surround sound for home use.
WM

The history of washing machine can be traced to an apparatus called scrub board, which was invented in 1797. In 1851, an American named James King manufactured and patented the first washing machine where drum was used. The 19th century saw many competitors keeping the price down in the industry. The Maytag Company introduced its first washer in 1907 which was followed by the industry with the agitator technology. In 1947, the first top-loading automatic washer was launched.

This was followed by many invention which consisted of aesthetic appeals, push buttons, fuzzy logic – micro-processor, specific to type of clothes, sensor, commands, load size detection, etc.

VC

The first manually-powered cleaner using vacuum principle was the "Whirlwind", invented in Chicago in 1869 by Ives W. McGaffey. In 1905 "Griffith's Improved Vacuum Apparatus for Removing Dust from Carpets" was launched. Instead, the vacuum cleaner floats on its exhaust, hovercraft was introduced in 1952. They were quite collectible today, and were easily identified by the spherical shape of the cannister.

REF

The history can be traced back to 1748 when Dr. William Cullen of Scotland demonstrated the cooling effect. It leads to vapour-driven refrigeration machine in 1805. In 1851 mechanical refrigeration was patented in US. During The 1889-90, shortage of natural ice necessitated the use of refrigeration for freezing. In 1915 General Electric Company developed the refrigeration for household use. From 1950s to 2000 developments like defrost, automatic ice makers changed the industry norms. The present day models are more developed on energy consumption criteria and are odourless.

MO

The invention of microwave oven dated back to 1946. This discovery created to revolution in the kitchen and cooking industry. In 1965, first microwave oven was introduced. In 1962, Sharp started the first mass production of microwave oven in
Japan. In 1975 the sale of microwave oven exceeded that of gas. The first grill microwave oven was launched in 1979. Subsequent developments includes kneading function sensor, defrosting system, LCD, menu data organizer etc.

FPJMG

In 1908 Herbert Johnson, an engineer for the Hobart Manufacturing Company, invents an electric standing mixer. His inspiration came from observing a baker mixing bread dough with a metal spoon; soon he was toying with a mechanical counterpart. By 1915, his 80-quart mixer was standard equipment for most large bakeries. In 1919, Hobart introduced the Kitchen-Aid Food Preparer (stand mixer) for the home. Subsequent models were launched as food processor or juicer mixer became a necessity and a handy product / instrument to be used for household kitchen use.

• Indian Perspectives

Although household durable items have been there ever since households have been there, the evolution of white goods / consumer durables into a sector has been a recent phenomenon, compared with other sectors of the economy. This phenomenon can be attributed both to the paucity of ‘durables’, which would stimulate the interest of the people, as well as to the absence of the ‘consumer’, who would be both able and willing to pay for them. Home appliances have been technological marvels, invented and developed upon in the more affluent, developed societies, and it has taken a lot of time for their adoption in the less developed countries like India. The greatest barrier in the Indian case was an ideological one, with the post-Independence Government following an import substitution strategy and placing either quantitative or tariff barriers in the way of imports of these goods.

As is typical in a developing country, in India, the evolution of consumer durables as a sector was delayed because of durable assets being perceived as luxury items both by Government and households.

In India, the consumer durables sector germinated during the 1980s, when the benefits of economic growth trickled down to raise affordability levels, leading to the
evolution of consumers as a class. The psychographic profile of people underwent a change, and with the onset of consumerism, ownership of assets became a matter of social status as never before. The Government also did its bit by launching colour televisions in 1982, when India hosted the Asian Games.

While the foundations for the white goods / consumer durables sector were laid by domestic players (e.g., washing machines launched in 1987 by the Videocon Group, which took a calculated risk by defying the results of a market research study that projected bleak prospects for a washing machine market in India) it was in the 1990s that it started witnessing intense activity with entry of multinationals. Initially, the multinationals, unfamiliar with peculiarities of the Indian market, had to face a lot of teething troubles. However, with their financial muscle and time-tested global experience, the multinationals persisted with the Indian market and have now managed to create a significant presence for themselves.

Segments of White Goods / Consumer Durables

The FICCI-Ernst & Young 2007 repost on Winning with Intelligent Supply Chains says the consumer durables (including consumer electronics) category accounts for just over 7% of the total Indian retail market.

Figure - 2.1
Retail Sector in India by Category
The industry recorded annual sales of US$20 billion in 2006 at a compounded annual growth rate (CAGR) of 8.3% over the past five years. The industry revenues include sales of consumer electronics, household appliances, technology gadgets and gizmos and other domestics' appliances including water heaters, electric fans, watches, and clocks. Share of the organized players in this market is only 6%, which indicates significant opportunity for growth. (See Also – White Goods / Consumer Durables Market Segment)

**Market Size**

While the industry as a whole is estimated to grow at 10 to 15%, the urban segment is expected to grow at around 10% with rural markets estimated to grow at a much higher rate of 25%. Household appliances are primarily urban-centric products with availability of power serving as a key driver of adoption. Consumer electronics are increasingly driven by growth in rural markets.

**Figure - 2.2**

Ownership of Consumer Durables

<table>
<thead>
<tr>
<th>Item</th>
<th>APL Household</th>
<th>BPL Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>BICYCLE</td>
<td>65.6</td>
<td>64</td>
</tr>
<tr>
<td>WRIST WATCH</td>
<td>64.6</td>
<td>83</td>
</tr>
<tr>
<td>RADIO</td>
<td>43.8</td>
<td>50.8</td>
</tr>
<tr>
<td>TV (COLOUR)</td>
<td>7.5</td>
<td>32.7</td>
</tr>
<tr>
<td>TV (B&amp;W)</td>
<td>6.6</td>
<td>10.5</td>
</tr>
<tr>
<td>TELEPHONE</td>
<td>4.4</td>
<td>25</td>
</tr>
<tr>
<td>REFRIGERATOR</td>
<td>3.3</td>
<td>22</td>
</tr>
<tr>
<td>CELL PHONE</td>
<td>2.8</td>
<td>19.1</td>
</tr>
<tr>
<td>CAR</td>
<td>1.0</td>
<td>6.4</td>
</tr>
<tr>
<td>CREDIT CARD</td>
<td>0.5</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Figures are in %
Increasing affordability with rising incomes and easy access to consumer finance are driving growth in the consumer durables market. Rural markets have witnessed an increase in adoption of consumer durables, primarily driven by the rising living standards and increase in non-food expenditure. These trends have provided both manufacturers and retailers with significant growth opportunities.

2.4 Indian Market Structure and Demographics

The fundamental demographic trends in the country have been growth in populations, trend towards greater urbanizations and rapid household formation.

With economic growth, the proportions of households in the lower income classes and lower consuming groups have declined, while the proportions in higher income
groups and higher consuming groups have gone up, mainly because of inter-class movements from the lower to higher groups. It is pronounced as period of preceding reforms. Ownership of durable assets has been skewed towards urban households against rural households. The factors responsible for low growth include infrastructural bottlenecks, low agrarians income growth rates, and the different lifestyles and psychographic profile of rural households.

In future, the number of households in the higher income groups is expected to increase even faster at the cost of those in the lower economic groups. However, skewness of prosperity towards urban areas is likely to persist though with less intensity.

2.4.1 Major Demographic Trends

- Population Growth
The basic driver for the growth in the consumer markets in India has been the population growth. As shown in the Table - 2.2 from 1911 to 2001, the population in India has grown at a compounded average decennial growth rate of 16.9% (or an annual growth rate of 1.57%). The annualized growth rate in populations shows a marginal drop with increasing national concern over population growth.

<table>
<thead>
<tr>
<th>Census Year</th>
<th>Population (in millions)</th>
<th>Decadal Growth</th>
<th>Annual Average Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Absolute (million)</td>
<td>Percent</td>
</tr>
<tr>
<td>1901</td>
<td>238.4</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1911</td>
<td>252.1</td>
<td>13.7</td>
<td>5.75</td>
</tr>
<tr>
<td>1921</td>
<td>251.3</td>
<td>13.7</td>
<td>-0.31</td>
</tr>
<tr>
<td>1931</td>
<td>279.0</td>
<td>27.7</td>
<td>11.00</td>
</tr>
<tr>
<td>1941</td>
<td>318.7</td>
<td>39.7</td>
<td>14.22</td>
</tr>
<tr>
<td>1951</td>
<td>361.1</td>
<td>42.4</td>
<td>13.31</td>
</tr>
<tr>
<td>1961</td>
<td>439.2</td>
<td>78.1</td>
<td>21.64</td>
</tr>
<tr>
<td>1971</td>
<td>548.1</td>
<td>108.9</td>
<td>24.80</td>
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<tr>
<td>1981</td>
<td>683.3</td>
<td>135.2</td>
<td>26.66</td>
</tr>
<tr>
<td>1991</td>
<td>843.4</td>
<td>163.1</td>
<td>23.86</td>
</tr>
<tr>
<td>2001</td>
<td>1027.0</td>
<td>180.6</td>
<td>21.34</td>
</tr>
</tbody>
</table>

Source: Census of India, 2001, Government of India
• **Urbanisation**

The census data for 2001 reveals that 29% of the Indian population lives in urban areas. The expected Indian populations residing in urban areas, in 2025 will be 37%. In addition, to population growth, increasing urbanisation is caused by both a migration of people from rural to urban areas as well as natural growth of urban populations. The trend is likely to continue in future too.

**Table - 2.3**

<table>
<thead>
<tr>
<th>Percentage Share of Total Population</th>
<th>URBAN POPULATION 2005</th>
<th>URBAN POPULATION 2025 F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Of Total Population Or Urbanisation Rate</td>
<td>29%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Urban population, 2005-2025 (mn)
Estimates of birth vs migration split assumes urban birth rate = 19% and death rate = 6 per 6000

**Source:** MGI India Consumer Demand Model

• **Household Formation**

One of the key parameters for white goods industry’s growth is the rate of household formation and distribution of household by literacy.
Figure 2.5 (a) & (b)
Distribution of Households by Literacy

(a)  
- 10.4% GRADUATE AND ABOVE
- 3.8% UP TO HIGHER SECONDARY
- 26.7% PRIMARY
- 59.1% ILLITERATE

(b)  
- 7.2% GRADUATE AND ABOVE
- 8.5% UP TO HIGHER SECONDARY
- 25.5% PRIMARY
- 58.8% ILLITERATE

Source: The Max-NCAER India Financial Protection Survey

- Economic Growth

The forecasts for annual rate of growth of gross domestic product (GDP) over the coming two decades generally range between 6 and 9 per cent per year. MGI forecasts real compound annual growth of 7.3 percent from 2005-2025, a marked acceleration from the 6 percent growth of the previous two decades. MGI’s analysis shows that if India achieves this growth path over the next 20 years, Indian income levels will almost triple. Average real household disposable income will grow from 113,744 Indian rupees by 2025, a compound annual growth rate of 5.3 per cent.

Accelerating income growth will transform the economic structure of Indian society. Income growth in India has accelerated as the economy has grown. In 1985-1995 incomes increased at 5.7 per cent per year, and then by 6 per cent in 1995-2005. This trend will continue with 6.4 per cent growth in income from 2005-2015. In many fast growing economies such as India and China, household income growth tends to lag...
behind the overall expansion of GDP. This is because during periods of high growth, businesses tend to capture a greater share of total factor income as they generate profits that are then ploughed back into investments.

2.4.2 Income Growth

- Households

Consumption patterns in the country have been influenced not only by the size of the consumer markets but also by the affordability levels of the consuming households. With percolation of economic growth, there has been a rise in household income levels, which has led to an upward movement of households to a higher income category.

Figure - 2.6 (a), (b) and (c)
Shape of the Income Pyramid

Source: MGI India Consumer Demand Model.
It is evident from the Income Pyramid charts that the trend in percentage of deprived households will decrease to nearly half of the actual i.e. from 101.1 in 2005 to 49.9 in 2025. Similarly, there will be more households in the brackets of Seekers, Strivers and Global category. *(See Also - Income Distribution by Per Capita Income Quintiles)*

- **Distribution of Income by Major Source of Income**
  *Who earns the most? Salaried in urban India, agriculturists in rural India dominate the pie.*

  **Figure - 2.7 (a) and (b)**
  Distribution of Urban and Rural Households by Major Source of Income

  *(a)*

  | Source: The Max-NCAER India Financial Protection Survey. | SELF-EMPLOYMENT IN AGRICULTURE |
  | | LABOUR |
  | | SELF-EMPLOYMENT IN NON-AGRICULTURE |
  | | REGULAR SALARY/WAGES |
  | | OTHERS |

  *(b)*

  | SELF-EMPLOYMENT IN AGRICULTURE |
  | LABOUR |
  | SELF-EMPLOYMENT IN NON-AGRICULTURE |
  | REGULAR SALARY/WAGES |
  | OTHERS |
It is evident that agriculture in rural India remains as the major sources of income for households. On the other side, the salary/wages account for 36.9% in urban India.

- Distribution of Households and Income by Major Source of Household Income

Figure - 2.8 (a), (b), (c) and (d)
Distribution of Households and Income by Major Source of Household Income

(a) - (b) RURAL

HOUSEHOLDS

INCOME
It is predicted that by 2015-16 more than half of the household will be in the middle class category. It can be seen that the percentage of household under high income bracket will increase too.

Source: The Max-NCAER India Financial Protection Survey.
With a fast growing, upwardly mobile, working-age population, and continued favourable labour market conditions, urban India will undergo a substantial shift in the structure of its income classes. Only in the last decade has a clear class structure begun to emerge as average household incomes have risen by 4.9 percent, and a modest urban middle class of 7 million households has emerged. However, over the next two decades, we will see falling as urban Indians climb to higher income brackets.

Over the past decade, the proportion of aspirer households has been rising rapidly while that of deprived households has declined. Aspirers are currently the largest group and have peaked to 2009. MGI expects the lower-middle class seeker group to take off sharply in the next several years, surpassing the aspirers as the largest group in 2014. This sudden growth in the number of seeker households will be fuelled by the large mass of the population currently poised just below the seeker income threshold. The seeker segment will continue to grow as incomes migrate upwards, peaking in 2022 at 64 million households, or 62 per cent of total urban households.

Source: NCAER/FCR
States

With economic liberalization during 1990s, the national average rate of economic growth picked up.

The per capita net domestic products at current prices for 2004-05 vary significantly across the country, ranging from Rs. 29,237 for Delhi to Rs 6,277 in Bihar, a difference of around five times between the richest and the poorest states, according to estimates by the Central Statistical Organisation (CSO). Based on the level of their per capita income these states are grouped into the following three categories, viz.

- Low-income states: Assam, Bihar, Madhya Pradesh, Meghalaya, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Uttaranchal and Jharkhand.
- Middle-income states: Andhra Pradesh, Himachal Pradesh, Karnataka, Kerala, Tamil Nadu and West Bengal; and
- High-income states: Goa, Gujarat, Haryana, Maharashtra, Punjab, Pondicherry, Chandigarh and Dehli. Forty eight percent of Indians live in the low-income states, 30.6 percent in the middle-income ones and the balance in the high-income states.

Table - 2.4
Profile of Households in Different Categories of States

<table>
<thead>
<tr>
<th></th>
<th>LOW-INCOME STATES</th>
<th>MIDDLE-INCOME STATES</th>
<th>HIGH-INCOME STATES</th>
<th>ALL INDIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Households (mn)</td>
<td>91.7</td>
<td>69.6</td>
<td>44.3</td>
<td>205.6</td>
</tr>
<tr>
<td>Estimated Population (mn)</td>
<td>493</td>
<td>314</td>
<td>220</td>
<td>1,027</td>
</tr>
<tr>
<td>Average Household Size</td>
<td>5.38</td>
<td>4.51</td>
<td>4.97</td>
<td>5</td>
</tr>
<tr>
<td>PCI (Rs per annum)</td>
<td>9,749</td>
<td>14,543</td>
<td>18,172</td>
<td>13,018</td>
</tr>
<tr>
<td>Population Share (%)</td>
<td>48</td>
<td>30.6</td>
<td>21.4</td>
<td>100</td>
</tr>
<tr>
<td>Share of Rural Population (%)</td>
<td>80.7</td>
<td>68.2</td>
<td>54.5</td>
<td>71</td>
</tr>
<tr>
<td>Income Share (%)</td>
<td>36</td>
<td>34.1</td>
<td>29.9</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: The Max-NCAER India Financial Protection Survey

The 2008 NCAER National Survey of Household Income and Expenditure on The next Urban Frontier: Twenty Cities to Watch conducted along with Future Capital Research (FCR), the research arm of Future Capital Holdings limited, identifies 20 key cities and groups them into three broad categories – megacities, which are the largest cities in terms of population and consumer markets; boomtowns, which stand out as the next set of large population cities with high expenditure per household; and
niche cities, which are smaller in terms of population but have higher spends per household.

**Megacities, boomtowns and niche cities**

The recent NCAER National Survey of Household Income and Expenditure on The Next Urban Frontier: Twenty Cities to Watch conducted along with Future Capital Research (FCR), the research arm of Future Capital Holdings Limited, identifies megacities, boomtowns and niche cities. Megacities comprise Mumbai, Delhi, Kolkata, Chennai, Bangalore, Hyderabad, Ahmedabad and Pune, boomtowns are the emerging consumer markets and include Surat, Kanpur, Jaipur, Lucknow, Nagpur, Bhopal and Coimbtore and niche cities are Faridabad, Amritsar, Ludhiana, Chandigarh and Jalandhar.

<table>
<thead>
<tr>
<th>Table - 2.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Top 20 Cities Make Up 10% of India's Population, But Generate 31% of Income</td>
</tr>
<tr>
<td>Share of total (%)</td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>Households</td>
</tr>
<tr>
<td>Population</td>
</tr>
<tr>
<td>Income</td>
</tr>
<tr>
<td>Expenditure</td>
</tr>
<tr>
<td>Surplus income</td>
</tr>
</tbody>
</table>

Source: NCAER/FCR

- **Urban-Rural Contrariety**

One of the significant features of Indian demographics has been the disparity in the levels of prosperity in the urban and rural areas. The average household income for all India stood at Rs. 65,041 (per annum) where rural areas accounted for Rs. 51,922 and urban worked out to Rs. 95,827. (Source: The Max-NCAER India Financial Protection Survey)

Apart from the large differences in urban and rural incomes, there is a major difference in the manner in which income is spent and saved. This difference persists, not just in terms of the share of income that is used for consumption of items like food, but also in terms of the purchase of various durables, expenditures on health and education and even in terms of borrowing from organized financial institutions or depositing money with them.
Figure - 2.10 (a), (b), and (c)
Estimates of Routine and Non-Routine Expenditure

(a) EXPENDITURE ON FOOD (ROUTINE)

(b) EXPENDITURE ON NON-FOOD (ROUTINE)

(c) NON-ROUTINE EXPENDITURE

Source: The Max-NCAER India Financial Protection Survey

- Distribution of Routine and Non-Routine Expenditure
In some ways, however, there is little difference between rural and urban households – both groups report a fairly large non-routine expenditure. Expenses on items like food tend to drop as a share of both income and expenses, as households get richer. This phenomenon is also noticed as one moves from smaller to bigger towns, and
even as the occupation of the chief earner changes. It must be recognized that migration, education and occupation are linked to income.

Routine expenditure includes consumption expenditure on food, housing, health, education, transport, clothing, durables and other such expenses. Non-routine expenditure includes large expenditure on ceremonies (such as weddings, births, etc.), medical, higher education, leisure travel, etc. Medical expenditure is usually unplanned. The durables spending in rural and urban areas account to 4.9% and 5% respectively. (Source: The Max-NCAER India Financial Protection Survey)

- **Assets Ownership**

Increasing in household incomes has led to an improvement in affordability levels in terms of greater disposable incomes, leading to increased ownership of durable assets. According to NCAER estimates, (on ownership patterns of durable items) the number of durable goods owned by the Indian households is rising continuously. Moreover, within the set of durable items, with greater incomes, there has been a shift towards higher valued items. The twenty cities as mentioned earlier fuelled just under $100 billion of consumption expenditure in 2007-2008.

Sectors heavily geared towards demographics – consumer durables, financial services, FMCG and apparel – may follow typical patterns where the boomtowns will be the next big pockets.

| Table - 2.6 |
| Middle Class Ownership Patterns Vary Across Cities |

<table>
<thead>
<tr>
<th>Middle class penetration rates (% of households)</th>
<th>Megacities</th>
<th>Boomtowns</th>
<th>Niche cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Television</td>
<td>90.46</td>
<td>87.42</td>
<td>85.78</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>90.2</td>
<td>89.52</td>
<td>91.34</td>
</tr>
<tr>
<td>Washing machine</td>
<td>65.98</td>
<td>55.28</td>
<td>62.03</td>
</tr>
<tr>
<td>Microwave Oven</td>
<td>13.68</td>
<td>14.12</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Source: NCAER/FCR

At the same time, more specialized consumer markets such as luxury goods, big-ticket durables, entertainment services and housing may find further inroads in niche cities. Although niche cities may not appear as large on the surface, consumption patterns may evolve more quickly, creating deeper addressable markets.
2.5 White Goods Industry in India

The white goods / consumer durables (including consumer electronics) market is estimated at US$20 billion. The organized retail market is valued at US$1.25 billion, whereas 93.7% of the market is unorganized and is valued at US$18.75 billion. These devices have driven growth of the category in recent years. Organized retail enjoys high penetration levels in the urban markets; hence the increase in spends on electronics and household appliances by rural households is expected to be a major driver of growth in the future. Rising incomes and easy access to credit have contributed to the growth of this category.22

2.5.1 Sector Aggregates23

White Goods / Consumer Durables Sector Aggregates (Flat Bottom-line)

The Indian consumer durable and electronics industry witnessed 14% growth.

Sectors-wise Growth

The sectors, which have recorded excellent growth rates of more than 20% in terms of quantity produced in April-May 2009 over the corresponding previous period, are Microwave ovens (37.3%), Colour Picture Tubes (33%). The sectors that have recorded high growth rates between 10% and 20% are Colour Televisions (17%), Washing Machines (23.1 %) and Frost-free refrigerators (15.8%).
Production

Production of the consumer durables sector recorded double-digit 13.26% growth in July 2008, but only to resume back single digit 5.11% growth in August 2008. But even this growth was good, considering a fall of 6.15% in August 2007.

Table - 2.8
Trends in Index of Consumer Durables in India as on Tuesday, Dec. 09, 2008

<table>
<thead>
<tr>
<th>Month</th>
<th>2008 - 09</th>
<th>% Chg.</th>
<th>2007 - 08</th>
<th>% Chg.</th>
<th>2006 - 07</th>
<th>% Chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr</td>
<td>352.9</td>
<td>3.3</td>
<td>341.8</td>
<td>2.4</td>
<td>333.8</td>
<td>7.4</td>
</tr>
<tr>
<td>May</td>
<td>391.0</td>
<td>2.8</td>
<td>380.3</td>
<td>-0.7</td>
<td>382.8</td>
<td>17.5</td>
</tr>
<tr>
<td>Jun</td>
<td>374.4</td>
<td>4.6</td>
<td>357.9</td>
<td>-3.6</td>
<td>371.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Jul</td>
<td>400.5</td>
<td>13.9</td>
<td>351.5</td>
<td>-2.7</td>
<td>361.1</td>
<td>16.2</td>
</tr>
<tr>
<td>Aug</td>
<td>394.5</td>
<td>3.9</td>
<td>379.7</td>
<td>-6.2</td>
<td>404.6</td>
<td>19.0</td>
</tr>
<tr>
<td>Sep</td>
<td>445.7</td>
<td>14.6</td>
<td>388.9</td>
<td>-7.3</td>
<td>419.4</td>
<td>11.8</td>
</tr>
<tr>
<td>Oct</td>
<td>418.7</td>
<td>-3.1</td>
<td>431.9</td>
<td>9.0</td>
<td>396.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Nov</td>
<td>353.1</td>
<td>-4.2</td>
<td>368.4</td>
<td>-5.5</td>
<td>389.9</td>
<td>10.1</td>
</tr>
<tr>
<td>Dec</td>
<td>n.a.</td>
<td>n.a.</td>
<td>353.7</td>
<td>2.8</td>
<td>344.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Jan</td>
<td>n.a.</td>
<td>n.a.</td>
<td>383.4</td>
<td>-0.5</td>
<td>385.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Feb</td>
<td>n.a.</td>
<td>n.a.</td>
<td>389.6</td>
<td>3.1</td>
<td>377.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Mar</td>
<td>n.a.</td>
<td>n.a.</td>
<td>408.4</td>
<td>-2.0</td>
<td>416.9</td>
<td>3.8</td>
</tr>
<tr>
<td>LQ. Oct - Nov</td>
<td>385.9</td>
<td>-3.6</td>
<td>400.2</td>
<td>1.8</td>
<td>393.2</td>
<td>4.9</td>
</tr>
<tr>
<td>YTD Apr - Nov</td>
<td>391.4</td>
<td>4.4</td>
<td>375.1</td>
<td>-1.9</td>
<td>382.4</td>
<td>12.4</td>
</tr>
<tr>
<td>FY. Apr - Mar</td>
<td>n.a.</td>
<td>n.a.</td>
<td>378.0</td>
<td>-1.1</td>
<td>382.0</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: Central Statistical Organization  n.a. = not available; Index = 100 in 1993-94


Fluctuating Demand

Consumer durable production fell in October and November 2008, after recording growth in the first half of the current fiscal. The recent global turmoil has adversely affected Indian consumerism, and in view of the slowing economy, people prefer to defer non discretionary expenditures. Adding further trouble is the banks shifting away from low ticket loans, in which most of the consumer durable loans fall.

Better growth recorded in the first half has enabled the sector to report 4.35% growth in April-November 2008 compared with 1.92% fall in the same period last year. Production of washing /laundry machines recorded 6.90% growth in November 2008 compared with 4% fall in November 2007. During April-November 2008 it recorded mere 0.63% growth compared with 8.61% increased during the same period last year.

<table>
<thead>
<tr>
<th>Type of Goods</th>
<th>FY2004</th>
<th>FY2005</th>
<th>FY2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTV</td>
<td>8.3</td>
<td>9.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Washing Machines</td>
<td>1.4</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Refrigerators</td>
<td>3.7</td>
<td>3.9</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Figures in millions units

Source: ICRA Report 2006

Table - 2.9 Industry Figures of Consumer Durable / White Goods

<table>
<thead>
<tr>
<th>Type of Goods (Nos.)</th>
<th>April – Oct. 2008-09</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTV</td>
<td>4184</td>
<td>3494</td>
</tr>
<tr>
<td>Washing Machines</td>
<td>1322840</td>
<td>1326075</td>
</tr>
<tr>
<td>Refrigerators</td>
<td>4492</td>
<td>4375</td>
</tr>
</tbody>
</table>

Figures In 'ooo


2.5.2 Major Players and Market Share

Existing Players

The existing players can be classified into three types:

1. Low Cost Players: Videocon, Akai, Sansui, Panasonic
2. Mixed Players: Onida, BPL, Samsung, LG, Philips
3. Premium or quality focused: Sony

Micr Electronics most popular brand is Onida. It has revamped its strategy which is aimed at further broad basing the product offering of the company, which has largely dominated the top-end of the television market, across multiple market segments.

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1 For Bibliographical References See ‘Other References’ at the end of this chapter
BPL has used umbrella branding to create a certain image for itself. The corporate name, BPL has established itself into the credo of building winning competencies, abilities and infrastructure. This has enabled BPL to become a contemporary, yet an Indian entity. BPL has had a strong presence at the mid-segment of CTV. It has a strong distribution, deep penetration and service support. This move is primarily aimed at the emerging rural market and to take on competition from the Chinese and low priced brands. The company also plans to launch a premium sub-brand Digital BPL that will include high-end convergence product. The mother brand BPL continues to operate in the middle segment of the white goods market.

Philips is a famous consumer electronics company and it stands at number three in the Asia Pacific region. Philips was somewhat late entrant in the CTV business in India. It changed its pricing policy to establish itself as a leading player in the Indian market. Philips has all along tried to establish its brand to reflect its international image as well as the fact of technology sophistication. (Sense and Simplicity©)

Videocon has adopted a multi-brand strategy where it promotes Akai, Toshiba, Sansui and (post acquisition of Thomson with all its brands) along with the mother brand is trying to increase its market share. The company wants the customers to perceive Videocon as a product with value and having the latest technology. Videocon has used sub-branding as a marketing tool for its range of products.

Akai

Videocon Industries (VI) entered into a joint venture with Akai Electric Co. Ltd. (AECL) in March 1999, to form a new entity called Akai India Ltd. VI held 70% in the entity, while AECL held the remaining 30%. VI, reportedly, made a one-time payment of US$ 2 mn to AECL for the exclusive rights to use the brand in India. Before the joint venture came into existence, the Akai brand was marketed by Baron International (BI), which used aggressive advertising and pricing to corner 16% of the television market in 1998-99. When Akai was with BI, the products were sourced from China. After VI purchased the Akai brand, it announced that Akai branded products would be made in India, while a few critical components would be sourced from Japan.
VI followed a two-pronged strategy for the Akai brand. It continued to sell low-price models under the brand but made efforts to emphasize quality and technology in the communication. However, over the years VI was primarily projecting Akai as a price warrior. As a result, Akai had become a player in the lower end of the market.

**Toshiba**

VI's association with Japan-based Toshiba started in the 1980s, when VI entered into a technological partnership with the Japanese company to manufacture its range of color televisions. The association was strengthened when VI bought the marketing and manufacturing rights for Toshiba television in India.

In 1998, VI launched Toshiba brand projection TVs. They competed directly with Samsung's range of projection TVs. However, in the early 2000s the projection TV market posted negative growth because of the advantages of LCD and plasma screens which were lighter in weight and much better in picture clarity. But VI didn't introduce Toshiba brand plasma or LCD TVs to compensate for the falling sales of its projection TVs.

As of 2005, Kentosh Electronics India Limited (KEIL- wholly-owned subsidiary of Videocon) sold DVD players, conventional TVs, flat TVs as well as projection TVs under the Toshiba brand. The brand was primarily advertised in the print and display media.

**Sansui**

Sansui came into the VI fold in the late 1990s. VI bought the Indian rights for the Sansui brand from Hong Kong-based Semi-Tech (Global) Co. Sansui was placed under the electronics division of Kitchen Appliances India Ltd (KAIL), a wholly-owned subsidiary of VI. Initially, the products under the brand were priced on the higher side and competed with brands like Philips. But gradually, prices were slashed. In 2001, Sansui reduced prices of its VCD players. The prices of Sansui VCD players, which were as high as Rs. 9900

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(during the period, Philips was selling its VCD players at Rs. 10000), were slashed to Rs. 5900. Around the same time, Sansui also launched an exchange scheme for its CTVs. Under the scheme, customers were given a cash discount of Rs. 3000-4000 on exchanging their old set for a Sansui CTV. Over the years, Sansui seemed to have followed Akai’s way. The brand depends heavily on promotional offers and discounts. In spite of the promotions, Sansui couldn’t gain a significant market share.

Kenstar
KAIL launched the Kenstar brand in October 1996. Initially, the company launched Kenstar branded microwave ovens, which were well-received. By 2000, Kenstar ovens were able to garner close to 18% of the market. Soon the company introduced Kenstar coolers which also were successful in making a dent in the market. Subsequently, mixers and grinders, food processors, toasters, juicers etc. were also launched. In April 2002, VI announced the launch of Kenstar range of refrigerators. The announcement was seen as an extension of VI’s multibranding strategy, which till then was limited to televisions and refrigerators.

Electrolux, Kevinator
ABE, headquartered in Stockholm, Sweden, entered India in 1995-96. The company bought the Kelvinator brand in the US before entering India. In India, ABE bought a controlling stake in Maharaja International Ltd in 1995 and renamed it Electrolux Kelvinator Ltd (EKL).

LG chalked out three phases of communication strategy:

- During the first phase (till mid-1998), the emphasize was on communicating its global credentials and establishing a strong foothold in India.
- The second phase tried to make higher awareness with focus on the “esteem factor” and differentiation.
- In the third phase, the company tried to build on the relevance and recommendation scores, so as to increase its market shares.
LG's strength lies in a great product at a reasonable price. The company aims at building an image which is beyond the product itself.

Sony, for the first time, is cutting prices and re-defining its premium image. Their business strategy has been transformed to "retain price and increase features in some cases, and retain features and reduce prices in others". The company is putting in place a network of exclusive Sony outlets called Sony World. These outlets display the entire Sony range of top-of-the-line products. This strategy has served twin objectives. Firstly, these swank outlets enabled Sony to retain some resemblance of a premium image without relying too much on price. Secondly, they help the company to compete with the grey market as the entire range is available with an additional promise of efficient after-sales service.

Samsung is a subsidiary of Korean Samsung Electronics. It came to the forefront during its aggressive promotion campaign runs during the 1998 Soccer World Cup. The company conveyed a personally of a sportsman "who is pushing old boundaries by developing new technology and products". It is seen as a brand, which is technologically superior, Samsung has achieved good results due to a mixture of aggressive marketing, increasing product portfolio, use of information technology in logistics and customer service, and enhanced productivity.

Market Share Analysis²

The results for the quarter ended December 2008 of the top three companies of the industry says the saga. Voltas reported 10% fall in net profit to Rs 42.41 crore on 30% rise in net sales to Rs 862.54 crore in the quarter ended December 2008. Blue Star recorded 9% fall in net profit to Rs 32.19 crore on 10% rise in net sales to Rs 566.72 crore in the quarter ended December 2008. These results include the results of the Electrical Contracting business. MIRC electronics recorded steep 72% fall in net profit to Rs 2.49 crore on 0.3% fall in net sales to Rs 391.85 crore in the quarter ended December 2008. During this period, the company's interest costs rose by 33% to Rs 8.46 crore.

² Many of the inputs are taken from 'Capitaline Corporate Database (Software)'
MIRC Electronics added that the LCD television segment is showing an exponential growth in the Indian market and is fast becoming the new face of the television market worldwide. It cited industry figures, which indicated that the 92 million units' global LCD market was estimated to grow by over 15% to touch around 115 million units in 2009 and touch 139 million in 2010. The company attributed rising demand for LCD to the growing cost efficiencies in LCD panels enhancing the cost competitiveness, technology advancement in this sector and the benefits of this technology which are being communicated to customers.

Sharp India indicated that the Refrigerator market has been growing at 10% level. It also said that the availability of many products in the higher capacity frost free refrigerators from many MNC brands have caught the consumer attention and the Consumer aspirations have been growing for this segment. It has commenced production of LCT televisions in August 2008 at its factory situated at Koregaon Bhima at Pune in Maharashtra.

The refrigerators are useful for keeping the food edible and fresh for a particular period in time. They are highly dependent on the demand from the household segment. From being a luxury product the refrigerators, has become one of the necessary home appliances. In order to manufacture the refrigerators the least investment of around Rs 0.8 billion to Rs 1.0 billion are restricting the players to be an organized one. Though, the presence of the replacement market and the unorganized market pose a threat to the industry.

The total production of the refrigerators had increased by 11% to 1803.5 (000s) in number during the period April 2009- May 2009 from 1624.3 during the corresponding previous period.

There has been a transition in the washing machine segment, with the growth in demand for fully automatic washing machine outpacing the growth in demand for semi automatic washing machines though the latter continue to command large share in volume sales.

Washing machines are classified into two- semi-automatic and fully automatic. In the year 2009-10, the total volume of washing machines sold are approximately 380349.0
Though, the semi-automatic segment still dominates the market, its share is dropping slowly and the fully automatic segment is gaining in popularity due to the rising income levels and change in preferences among consumers.

The overall washing machine market continues to be dominated by four players namely LG, Videocon, Samsung and Whirlpool. The semi-automatic segment constituted the major slice of the market with a 76% share in 2003-04 and 74% share in 2004-05 and 60% in 2008-09. LG and Videocon dominate this segment with a market share of around 30% and 20%, respectively. On the other hand, the fully automatic segment is lead by LG and IFB, with around 28% and 25% market share respectively.

In urban areas where the penetration level of domestic appliance is higher, comparing to rural areas, the demand for high end products come out of up-gradation. The rural areas currently have very low penetration and are an emerging market for domestic appliances, with a rapid growth in demand.

2.5.3 Demand Characteristics

- Heterogeneous Market Structure
The Indian consumer market is a variegated one, not only in terms of the disparate income and affordability levels, but also lifestyles and Socio-cultural backgrounds, which make the same product, have different levels of value ascribed to it by different households. The diversity is also augmented by the different levels at which the infrastructural imperatives required for the operation and enjoyment of the services of durables are available to different households. The most important infrastructural prerequisite is electricity which is essential for the operation of most of these appliances. The lack of power supply (in terms of regularity and quality i.e. voltage fluctuation) in most areas in the countryside was one of the major factors that inhibited the growth of these markets during few decades.
A corollary is the skewness of demand towards urban areas observed in the case of many durables. In addition to the disparity in the levels of affordability between urban and rural areas (attributed especially to the disparity in industrial and agrarian growth levels), the lack of rural demand can also be traced to infrastructural bottlenecks. The situation is unlikely to change in the near future, since the use in affordability levels (as already evident) is expected to be more pronounced among urban households than rural households (a view corroborated by the NCAER).

The aggregate consumption for the year 2000 in the category of ‘Aspirers’ was Rs. 8.5 trillion. It is estimated to be around 11.9 trillion rupees. The aggregate consumption of ‘Seekers’, ‘Strivers’ and ‘Globals’ have been estimated at 24.6, 16.5, and 14.1 from 2.1, 1, and 1.2 trillion rupees respectively. (Source: MGI India Consumer Demand Model.)

- Inadequate Penetration

The penetration of durable goods in India is very low as compared with the rates achieved in developed countries because of the low affordability levels here and certain infrastructural bottlenecks. In terms of sheer numbers, there is, therefore, a
reasonable potential market for all durable items. An added aspect observed during the last few years has been the launch of many new durable products, and within each product, improved, product versions, even when the household penetration of the older products has been far from complete. For instance, while the television (TV) market is witnessing the launch of newer and technologically superior versions of colour TVs, including flat TVs and plasma TVs, there are close to 60 million households, which do not possess even a monochrome TV, because of low affordability or other deterrents. Because of the vast heterogeneity of the market, there is potential for the co-existence of all the product versions—the inferior and the superior, the inexpensive and the dearer.

2.5.4 SUPPLY CHARACTERISTICS

- *Intensification of Competition*

The durables sector in India includes both older players of domestic origin as well as multinational players who have set up shop either on their own or through strategic collaborations with established entities. It was after the launch of economic liberalization in the 1990s that the multinationals entered India, lured by what they perceive as a market with tremendous potential. While some of the big names like Akai, Toshiba and Aiwa entered through strategic tie-ups with existing players, there were others like Electrolux, LG, Samsung and Whirlpool who decided to go it alone. In the initial stages, they had to suffer heavy losses because of their lack of understanding of the Indian market and the presence of well entrenched domestic brands with proven distribution networks. Besides, the overseas players had overestimated the size of the market, going by the sheer number of potential households, rather than the capacity and willingness to pay more for goods that they knew little of. Moreover, in the initial stages, the multinationals had to use up their internal accruals for investments in setting up production capacities and distribution network. However, after realizing their previous shortcomings, the multinationals initiated efforts to study the requirements of the Indian market and design their products accordingly. Their focus on product development and research enabled them to come out with new and advanced features, which was ably supplemented by aggressive promotional initiatives, which effectively communicated their advantages to the lay consumer. As a result, over the last three years, the multinationals have consolidated,
their presence in the industry, moving into a leadership status in some sectors (refrigerators, where Whirlpool and Kelvinator have surpassed erstwhile market leader Godrej; CTVs, where LG has gained significant market share at the expense of BPL and Videocon; ACs, where LG has displaced Carrier as the market leader in the organized sector), and eating into the market shares of dominant domestic players in others (like televisions).

- **Focus on developing India as a strategic production base**

In addition to proximity to a vast market for their goods another strategic vision of the multinationals for entering India was to set up a production base in India which could cater to the regions of South and South-East Asia. The key factor considered was the low rate at which they could procure skilled labour. After consolidating their market in India, multinationals like Whirlpool, LG and Samsung are looking at harnessing their production capacities for overseas markets. Haier, a major Chinese white goods manufacturer, is systematically setting up its base in India. It may be mentioned that the major Indian players like BPL and Videocon are also eyeing overseas markets, and have setup collaborations with overseas entities to that effect.

- **Consolidation**

Typical of a highly competitive market with a number of players jostling for space, the Indian sector is also marked by over-capacity. However, a trend seen lately has been that of some existing players, who have stronger manufacturing capabilities, acting as original equipment manufacturers (OEMs) for other players, who have a greater marketing focus. This trend has been set especially by multinationals wishing to enter new durable sectors without being laden with excess capacity. In refrigerators, the Korean majors LG and Samsung have been outsourcing direct cool (DC) models from Voltas and Videocon, respectively, while importing the premium-end models from their overseas facilities.

2.5.5 **Key Success Factors**

- **Extensive Distribution Network**

An important success factor for well-entrenched domestic players like BPL and Videocon has been their extensive distribution network, arduously built up during the
late 1980s and the early 1990s, and consolidated during the last decade, enabled them to ward off the onslaught of multinationals for a long time. Many first-generation multinational brands have used the distribution channels of established players to create a market base. Examples of such multinationals are Akai (through collaboration with first Baron International arid then, Videocon), Sansui arid Toshiba (through a tie-up with Videocon).

- **Access to Internationally Proven Technology**

In a world of continuous product innovation leading to ever-shortening product life cycles; access to technology has been a significant core competence. The successful domestic players of today like BPL and Videocon started off armed with internationally proven technologies from global majors While BPL tied up with Sanyo for its electronics goods, Videocon depended on National for the latter's expertise in washing machines and other appliances. The success story of the second generation multinationals, especially the Korean players LG and Samsung, got scripted largely because of their ability to offer a wide range of innovative features through a rich technology base built up through years of global experience.

- **Brand Reputation**

Brand image has been a major success factor in the highly competitive scenario that marks the Indian consumer durables industry. The importance of brand building has been evident since the late 1980s, when the successful domestic players of today—BPL and Videocon - were able to ensure their viability through a focus on brand building from day one. Later, both these players had capitalised on their established brand strengths in the electronics sector to move into other appliances. On the other hand, there have been instances where an indifferent attitude towards brand value has led to dilution of market presence. Among the first generation multinational brands, Akai, which entered India through collaboration with Baron International, was pitched by the latter on the price platform rather than value. Although the brand consolidated, its presence through exchange schemes, spurring replacement demand, Akai's image as a Japanese brand eroded to some extent.
- **Knowledge of Indian Market Peculiarities**

One of the key reasons for the multinational players taking time to consolidate their presence in India was the lack of understanding of certain peculiarities of the Indian market. Thus, factors responsible for their later success are revisions in strategy to focus more on product innovation and customization. In microwave ovens, for instance, a key deterrent to demand was Indian food habit, which was incompatible with oven cooking. Sensing the discrepancies, several players went in for introducing features compatible with the Indian cooking culture. In washing machines, while at the outset most of the players kept harping about the cleaning power, a latent apprehension in the minds of many housewives was the risk of damage that a mechanical action would produce on the fabric. Sensing this need, players like LG have positioned their offerings as those taking care of the fabric as much as manual washing would do.

- **Building Individual Competencies and USPs**

One of the key ingredients in the strategy of successful players has been developing a core competence and building it into the product offerings or in the company’s basic business paradigm. For example, in consumer electronics, Sony has adopted the mantle of the quality leader, with technology (especially the Trinitron technology in televisions) being its core competence. Other multinationals like LG, Samsung and Whirlpool, who have access to the global technology base of their parent companies, have developed product features as their USPs, which they have been highlighting through extensive sub-branding of their product lines.

2.5.6 **Government Initiatives for the Development of the Sector**

- **Phased liberalization**

During the 1990s, the Indian Government embarked on a phased programme of liberalization of the consumer durables sector. During the mid-1990s, controls on foreign direct investment in the sector were relaxed and several items (including colour TVs) were delicensed, and removed from the negative list to the Special Import Licence (SIL) list. Of late, in compliance with the recommendations of the World Trade Organisation (WTO), the Government has been removing quantitative restrictions on imports of all items.
• **Government and RBI's Measures**

**Plan Expenditure**

In order to provide a contra-cyclical stimulus via plan expenditure, the Government has decided to seek authorization for additional plan expenditure of up to Rs. 20,000 crores in the current year. In addition, steps are being taken to ensure full utilization of funds already provided, so that the pace of expenditure is maintained. The total spending programme till March 2009 stood at (plan and non-plan expenditure together) Rs 300,000 crores.

**Reduction in CENVAT**

- 4% cut in ad-valorem cenvat rate other than petroleum products. So, rates have come down from 14%, 12% and 8% to 10%, 8% and 4%
- Excise duty on Refrigerator, Air Conditioner, and Electric fans cut from 14% to 10%.
- Excise duty on ferrous and non-ferrous inputs cut from 14% to 10%.

**RBI Measures**

- RBI has cut repo and reverse repo by 100 basis points from 7.5% to 6.5% and from 6% to 5% with effect from 8th December 2008.

**Impact**

The benefits of such measures may elude the customers because a sizeable portion of it will go for input costs, including metals, plastics, packaging etc. The current indications are that the price of high ended consumer durables such as plasma TVs, washing machines and refrigerators are likely to be cut by 3-5%.

The lifting of quantitative restriction (QRs) has opened up the Indian white goods market to global players. Although the tariff barriers are still quite high, the entry of global players, especially the low-cost Chinese manufacturers like Haier, might pose a threat to the established industry. With the multinational players having a relatively easier access to the worldwide technology base of their parents, they are likely to add product features faster than domestic players. On the other hand, if the domestic players go in for price competition, they might find themselves in confrontation with
Chinese players. The strategy of price competition without accompanying reduction in costs might lead to erosion in margins.

2.5.7 Promotion Strategies Employed by Various Players

- Promotion Strategies
The promotion strategies employed by various players in the Indian white goods / consumer durables market may be classified as: Consumer promotion strategies (directed at the consumer), and Trade promotion strategies (targeted at the dealer).

- Consumer Promotion Strategies

**Exchange Schemes**
Exchange schemes have become a major promotional tool for many players, given the extreme price sensitivity and the low affordability levels in Indian consumer markets. Exchange schemes came into vogue in the mid-1990s, especially with Akai (then marketed by Baron - international) launching schemes in the CTV sector under which the old CTVs could be exchanged for new ones’ (that had the capability to receive cable television). Soon this strategy was picked up by other players as well. With product obsolescence becoming a common phenomenon across durables, exchange schemes have gained in popularity over time.

**Gifts and Freebies**
In addition to exchange schemes, consumer durable manufacturers have also been trying to lure potential customers by offering gifts and freebies along with the products purchased, especially during the festivals. For instance, in 2008, during Diwali, LG, National Panasonic, BPL and Samsung, offered free gifts on their products. While LG assured gift for purchase of - any of LG’s products in India, BPL offered digital diary/travel bags on purchase of different TV models of BPL.

**Prizes**
Many companies offer prizes (following a contest or a game that only a consumer can participate in) providing the customer a chance to win cash, goods or trips. Of late, schemes have been launched whereby scratching out a sticker on an appliance would reveal the picture of an item, which could then be procured from the dealer’s shop. During the festival season in 2008, National Panasonic offered a scratch card on its
TVs, washing machine, and microwave oven. On scratching the card, the customer could win two guaranteed gifts including a 29" flat TV, hi-fi systems, clocks, mobile phones, etc.

**Special Discount Schemes**

Special discount schemes have often been used by companies to penetrate new markets. As a means of establishing a dominant presence in the Eastern markets, LG Electronics has been launching special discount schemes during Durga Puja and Diwali in many States like West Bengal and Orissa and in the North-Eastern States, and giving loyalty rewards to second time buyers of LG goods.

**Product Warranties**

Product warranties have become an important promotional tool, especially in case of durables where consumers are very quality sensitive. For instance, a key point of competition among different players in the refrigerator industry has been the offer of a five-seven years warranty on the compressor.

**Customer service promises**

Unlike consumer non-durables, in consumer durables, the consumption of the product takes place over a number of years. As such, relationship marketing becomes an important promotional tool. Moreover, with the introduction of new products incorporating newer technologies, many consumers need to be reassured of timely assistance from the company in case of any problems materializing in the appliance. With competition increasing, all the players have realized the importance of customer service. Companies like Godrej and Whirlpool have been offering a customer protection plan on their refrigerators, where the customer is offered beyond the five year warranty, an additional service protection plan of one or two years at a reasonable consideration.

**Convenient payment schemes**

To facilitate customers' payment on durable goods, many players have come up with convenient payment schemes, either through their dealers or through collaborations with consumer financing institutions. Zero percent interest schemes have been
popular lately, where the marked price is divided into an equal number of installments payable per designated number of months.

Celebrity Endorsement
To provide a degree of comfort to the customer and to improve brand presence, many players have roped in well-known celebrities to endorse their products. In 2003, captains of all the cricket teams which participated in the Cricket World Cup, 2003 featured in 22 advertisements of the company. The scenario is still prevailing today where many celebrities endorse certain brands.

- Trade Promotion Strategies
  
  Cash incentive price-off schemes
  
  A common incentive to the dealer is a price-off (off-invoice or off-list), wherein the dealer is provided a discount for "lifting" a specified number of unit sales. For instance, a CTV player may provide a discount of Rs: 500 per CTV for lifting say 25 CTV sets at one go.

  Tangible rewards having social status connotations
  
  Many companies have followed a policy of providing dealers with rewards, which have connotations of high social status. Videocon, for instance, has offered its top dealers foreign trips and even Mercedes-Benz cars. Whirlpool has floated a ‘Club Elite’ for its top 30 dealer. Dealers qualifying for the Club Elite will be eligible for a vacation in Nepal.

  Other rewards
  
  As a motivational tool, several companies follow a strategy of selecting and designating their top dealers (based on their performance) with suitable titles, making them eligible for tangible rewards. For instance, LG designates its top dealers as “product champions”, while Samsung calls them “key” deals.

  Promotional support
  
  The dealers are provided with sales reckoners, product catalogues and other explanatory material, which clearly highlight the product USPs and benefits accruing
to the customer, so as to facilitate easy communication to the customer. In addition, companies also provide dealers with point-of-purchase (POP) displays and specially designed signages, which provide the dealers confidence and motivation. Most of the players’ also provide tips to dealers on shop layout and decor.

*Facilitating loans from banks, etc*

Many companies, like Samsung, help the dealers’ secure soft loans from banks to further business with them. In addition, they support dealers by tying up with consumer financing companies for deferred payment schemes

*Training Programmes*

Companies regularly impart training to dealers and to salespersons and demonstrators about the new products launched by them. In addition, the dealers are also trained on concepts of inventory management (like FIFO, LIFO and stock-reorder points), logistics and accounting. With more and more companies going in for the increasing use of information technology (IT) and e-commerce over the entire value chain, dealers are being trained on the rudiments of IT and Internet connectivity. The Korean players LG and Samsung have a policy of taking select dealers overseas ‘to visit their manufacturing facilities in Korea and – elsewhere.

**2.5.8 Future Outlook**

Globally, it has been observed that as income level rises, the share spent on food and grocery in the total household income declines and the proportion of income spent on lifestyle-related activities increases. Indian consumption patterns are no exception to the rule. Spending on consumer durables, apparel, entertainment, vacations and lifestyle products have been increasing in India.

India’s economy which was at 8.1% GDP growth rate in 2005-06 has come down to 6-6.5% in the current fiscal year. The slide can be attributed to overall recession / gloom in the world market. However, the 8% plus growth was due to rising foreign exchange reserves which stood at close to US$140 billion, a booming capital market, and the inflow of foreign direct investment (FDI) close to tune of US$8 billion. All of the above factors were responsible for the robust performance of the sector. The services sector which contributes more than 50% of the country’s overall GDP is expected to
achieve a growth rate of more than 10% during the same period. The boom in the service and manufacturing sector would boost the India's GDP in coming years.

The Indian white goods / consumer durable industry is highly sensitive towards the economic development of the country increasing competition, presence of other companies like LG, Akai etc in the Indian market, goods at cheaper rates, more competition over companies' products, invention of new products in the market on monthly basis, have changed the taste of the consumers. Currently, 60% of the domestic demand for consumer durables is met by local manufacturing and the rest through imports. The industry seems to be poised for growth in the coming years. Indigenous manufacturing facilities, government support, improvements in technology and growth in the customer base of rural areas will fuel this growth.

The Indian consumer durable sector is likely to witness strong growth going forward as the demand growth in premium segments such as LCD color televisions, semi and fully automatic washing machines, frost-free refrigerators continue to be on the rise. The rise in disposable incomes, changing life style of consumers and increased urbanization is paving way for increased usage of these products. On the margin front, the rising input costs are a concern but the increased volume growth in hi-end segments together with the benefit from rupee appreciation on imports should ease the margin pressure to an extent.

White Goods Opportunities in India

The following eight different factors make India a very strong growth market for white goods / consumer durables in general.

(i) In India, there is a distinct movement towards LCDs. Earlier; the focus was on size in the CRT domain. Presently, the aspiration is clearly for the LCD format.

(ii) India is one of the largest agrarian economies in the world, as a natural extension rural agriculture driven industry constitutes about 70% of the India's population. Over the last decade rural market established for consumer durable goods grew steadily to more than 65% of industry. Hence large potential is untapped in this market.
Looking ahead, consumer durable goods with a product shelf life estimated at around 8 years, the Indian replacement and up-gradation market is also likely to kick ahead, accelerating industry off-take.

Increasing consumer awareness and preference for new models have catapulted the demand with products like HDCTV, Microwave Oven, Washing Machines, Air Conditioners etc, no longer being perceived as luxury, but being treated as a necessity in the changing lifestyles of the great Indian middle class.

Attractive financing schemes have fuelled the rising aspirations, driving demand.

Increasing exports to South East Asian countries have opened up great opportunities.

Phenomenal growth of media in India, flurry of television channels, and rising popularity of films have spread awareness of televisions in the remotest markets.

Growth in Internet penetration in both urban and rural markets has lead to intelligent sales of consumer durables. It will also help to sustain the demand boom witnessed recently for quite some time in future too.

Companies are arriving in the market with the new innovative strategy to attract consumers. Recently introduced TV built with refrigerator introduced in European countries has successfully created hype in the market. It shows any innovative modification in technology has good support of market. This will in turn encourage the producers to come up with new features and technology. On the consumer side, the reducing cost, better financing schemes and up-gradation schemes introduced by the companies are attracting better response in the upper class and middle class. This will continue to help the industry to achieve higher growth in the coming days.

The demand for the home appliances / white goods is likely to go up as the consumers' willingness to purchase the product increases. And the increase in the construction of houses as well as the availability of various loans to the individuals to purchase the appliances will also derive the demand for the appliances. Therefore the growth prospect for the white goods is positive however, much depends on the players' ability to make the consumer move up the value chain. Otherwise, the
demand growth will remain in single digits, which will prevent them from increasing product prices.

The industry is hitting at 7.1m units, and is expected to grow by 30-45% by the end of the year 2008. Growth in the consumer market has received further impetus by the fact that a large proportion of the consumers are in the 18-35 years age group with a propensity to spend. Being highly correlated with the income level of the people, the consumer durable industry is expected to have a bright future as the income of upper middle and high-income urban households is expected to grow to Rs.38.2m in 2007.29-30

Companies are entering the market with new innovative features to attract consumers. Recently introduced TV built with refrigerator introduced in the European countries has attracted the consumers. This indicates that any innovative modification in technology has good support of market. This will in turn encourage the producers to come up with new features and technology.

The high growth of luxury brands will continue to be proved beneficial to the industry due to the growth in production in the organized segment and domestic availability of branded products, due to lowering of import duties and other liberal measures. Besides, promoting luxury brand, the price erosion has shown more than better response as per recent demand trend. On the consumer side, the reducing cost, better financing schemes and up-gradation schemes introduced by the companies are attracting better response in the upper class and middle class. This will continue to help the industry to earn high-ended growth in the coming future.

However, considering the universally applicable demand drivers of low penetration levels, growing household incomes, and increasing aspiration levels, the prospects for white goods are likely, to improve in future. In addition to factors affecting the white goods sector as a whole, the extent of growth in each product sub-sector is likely to be determined by more specific factors. For a household, purchases of different household appliances represent competing demands, not all of which can be met simultaneously. Every household would like to priorities the purchase of certain items over the others, on the basis of the perceived utility derived from these assets for the
entire family. It has been seen, for instance, that refrigerators, whose utility can be
derived by the entire household, have been accorded a higher priority than washing
machines and microwave ovens, which are predominantly convenience appliances for
the womenfolk. However, with the increase in the number of households with
working women—who have to regularly balance homes and careers—the demand for
these convenience appliances has grown over the years; the trend is expected to
continue in future as well.

From the suppliers’ point of view, the focus of competition is likely to shift
increasingly from the price to the product, with the players trying to outsmart each
other by constantly widening the choice of features and functions offered to the
diverse and dynamic customer base. Another trend witnessed in the more developed
countries has been the adaptation of convergence technologies to household
appliances, which have transformed them from simple mechanical gadgets to
interactive and intelligent entities. For instance, e-enabled refrigerators provide
interactivity through a monitor on the refrigerator door allowing Web access. They
are also imparted with artificial intelligence so that they can perform jobs like sensing
the inventory levels of food items and reminding the owner to replenish the stock.
Similarly, Web-enabled microwave ovens have been launched, which can download
recipes from the Internet. These Net-enabled appliances have entered the Indian
market as well. Among the established players, LG has already launched Net-enabled
washing machines, which can download various wash options. Although these Net-
enabled appliances have caught the imagination of the market, being high priced,
these would find takers only in the high-income segment in India. And even within
the high-income households, the audience would be limited to those having access to
a personal computer and an Internet connection.

The white goods / consumer durable segment has done well so far in the current
fiscal, despite spike in commodity prices, high interest rates and considerable
reduction in availability of finance schemes for funding consumer durable purchases.
2.6 Summary

The chapter presents an in-depth analysis of the Indian white goods / consumer durables industry, including a discussion on the major trends in the position and behaviour of consumer markets in the country as well as an understanding of selected white goods products. The consumer durable industry has been classified into three categories namely consumer electronics, white goods and air conditioners. In each of these categories the dynamics and prospects of the sub-sector and its constituent individual product markets have been analyzed. The various factors’ that have influenced the trends in these categories in the past and those likely, to do so in the future have been outlined.

It presents a brief introduction on the consumer durables sector in India and its constituent product categories, discussing the broad historical background against which their evolution took place in the country.

Further, through analyses the structure of the Indian consumer market, examining its demographic classification across income classes and regions, and the changing trends in these distribution patterns.

It classifies the durable items into different product groups—consumer electronics, white goods, and air conditioners—and proceeds to study the major items within each product group in terms of demand characteristics, supply scenario and prospects. The economics for each product group in terms of average sales realizations, available margins, cost structure, and asset management parameters are also analyzed. Further, the analysis for each of the product groups is complemented by a summary of the prospect for the group. Finally, it presents the conclusions that emerge from the preceding analyses of each of the product groups and the key issues relevant for these groups.
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