Chapter III

Global Trends of white goods

Trends of White Goods in China:
“Asian growth—particularly that of China and India—is becoming more important to the global economy. China’s economic growth rate has averaged 9.5 percent over the past 20 years. Large-scale economic reforms have contributed to higher disposable incomes and a drastic reduction in poverty”.  

National income has been doubling every 8 years and this has been reflected in the reduction of the poverty rate to much lower levels. Indeed, by some accounts over half of the reduction in absolute poverty in the world between 1980 and 2000 occurred in China. The country faces challenges in sustaining the pace of economic development that it has set for itself. One of the major challenges is a rapidly aging population. However, the continued evolution of economic policies, especially in the areas of allocation of capital, labour mobility, urbanization, and the creation of improved framework for the development of the private sector are indicators that economic growth in China should be sustainable. China, of course, represents a huge market for

---

global marketers. Today 77 percent of urban Chinese households live on less than 25,000 renminbi (less than U.S. $3,200) a year; estimated that by 2025 that figure will drop to 10 percent. By then urban households in China will make up one of the largest consumer markets in the world, spending about 20 trillion renminbi (approx. $2.5 trillion) annually—almost as much as all Japanese households spend today. By 2015, the Chinese upper middle class is expected to burgeon to some 520 million with a total spending power of 4.8 trillion renminbi (approx. $613 billion). Urban Chinese consumers’ consumption will undergo dramatic changes in the coming years and expenditure on household products—which is about 223 billion renminbi (approx. $28.5 billion) in 2010—will grow to 857 billion renminbi (approx. $109.5 billion) in 2025, a CAGR growth rate of 6.6 percent.”

**The Appliance Industry in China**

The State Information Centre put out the following information regarding the appliance sector in 2010:

- China’s White electrical appliance sector had a production output of 235.447 billion yuan (approx. U.S. $29.5 billion) in the first half of 2009, up 16.8 percent year-on-year. Production growth was lower by 7.46 percentage points than in 2008.
• The output of washing machines stood at 13.7 million sets by the end of the second quarter of 2009, up 3.05 percent year-on-year. Growth was 11.2 percentage points lower than that in the same 2009 period. Output of air-conditioners stood at 472.9 million units, up 1.42 percent, and its growth was 25.99 percentage points lower than that in the same 2009 period.

• Production of colour TVs hit 383.8 million sets, up 0.27 percent year-on-year. Nearly 3.9 million black and white TV sets were manufactured, which was 4.56 percent lower year-on-year. Video recorders totalled 4.9 million sets, down 13.48 percent. Nearly, 5.4 million DVD players were produced, recording a growth of 11.69 percent over the previous year.

According to the China-based Economic Information and Agency, the domestic household electric appliances sector in China faced a situation of oversupply during 2009. However, with a resurgence of the international appliance giants, the Chinese industry faced increasing difficulties in exports. New standards on energy consumption and environmental protection also pose challenges for the Chinese appliance brands and hence the conditions for overall recovery of the sector were not favourable during 2009. The Chinese Securities Journal, quoting figures from the SIC, reported that “compared with rising output, sales revenue of home appliances recorded a slowdown.” This was attributed to oversupply and decreased demand by urban consumers. However, there is vast potential
for appliance sales in China’s rural areas. According to the SIC, in the next 5 years, 32.8 percent of Chinese rural families plan to buy colour TVs, 17.5 percent plan to buy washing machines and 21.1 percent plan to buy refrigerators.

**Trend of white goods in Asia Pacific region:**

Asia-Pacific economies grew at a faster pace in 2010, thanks to a strong performance by their export industries and higher investments. A Reuters poll in October 2010 in the region found that economists have upgraded their growth forecasts for China, New Zealand, Singapore, Hong Kong, and the Philippines. India, Asia’s fourth-largest economy, grew at 7.5 percent for fiscal year 2009-10, which is only marginally lower than the 8.4 percent growth in 2007-08. Australia’s growth in 2008 was pegged at 3.5 percent and for South Korea at 5 percent. Economic growth in China slowed down in 2009 to 9.5 percent as a result of monetary tightening measures. Growth in emerging and industrial Asia reached to 7.3 percent by end-2008, but declined slightly to about 7 percent in 2009.

“The projected moderation next year reflects a modest decline in export growth, as growth in industrial countries, while remaining quite strong, and slows. At the same time, with the interest rate cycle in Asia likely nearing its
peak and the prospect of stability in oil prices, domestic demand should hold up well, even as export growth moderates.”

“Domestic demand will slow import growth to 5.7 percent in 2008 with a sharp decline to 3.2 percent in 2009,”

Inflation was less than 3 percent on average in the Asia-Pacific region. Proactive monetary policy tightening and exchange rate appreciation have helped offset the impact of higher oil and other commodity prices, says the IMF Outlook, while forecasting a “benign” inflation outlook for 2011. Strong foreign direct investment (FDI) flows into the region are expected despite global monetary tightening. However, on the risks front, the IMF Outlook points to some near-term risks that could cause some concern for economic growth in the region. A sharper than expected slowdown in the U.S. could impact the region’s exports and thus domestic demand. Also, higher oil prices could have an impact on both growth and inflation. Another cause for concern is the fall in private consumption-to-GDP ratio in emerging Asia. On the positive side, though, the IMF Outlook points out that, “Though private consumption has fallen relative to GDP real consumption growth is high by international standards.” The large population of the region is of considerable significance in global sales of domestic appliances, said Euro monitor International. “The region accounted for 29 percent of global sales by volume

---

5 International Monetary Fund’s (IMF) Asia and Pacific Regional Outlook, September 2006
6 Pacific Economic Corporation Council (PECC) forecast.
in 2008 and was among the best-performing markets over the review period (1998-2003), recording an annual growth rate (CAGR) of 6 percent,” reported Euro monitor International. What’s more, Euro monitor expects that “in 2011 Asia-Pacific will record the largest sales by volumes, which are estimated to grow by more than 39 percent in the region over the 2011-2012 periods, to exceed 506 million units.” This growth is being driven by rising disposable incomes, improved supply of gas and electricity and decreasing unit prices of appliances.

**White goods and Recession in United Kingdom**

“A case study of U.K consumer and measures adopted by them.”

Consumers have already endured 2 ½ years of financial crisis. It has affected their personal situations, their outlook, and their spending. Behavioural changes have affected almost all consumer goods sectors, but as the recession deepens, the easy economies have been made and the questions now become: What more will consumers do? How wide and how profound will consumer behaviour changes be? And what will be the trends in Great Britain. A recent Booz & Company survey of 1,800 U.K. consumers focused on these spending patterns, including the changes that consumers have already made and are expecting to make as the recession continues. The overwhelmingly negative outlook on the economy and uncertainty about personal financial security are leading consumers to broaden their cost-saving measures. These stretch from
daily economising on essential purchases to trading down to lower-cost brands; from delaying or reducing frequency of purchases to more aggressive comparison shopping. In the six months to come, consumers are prepared to take even more severe measures, including switching to lower-end retail channels and cutting spending on certain discretionary items. The significant wealth effect makes this recession even more dramatic than those in the past, as housing prices continue to fall at a rapid pace while equity markets, which fell in value by more than 30 percent in 2008, continue to decline. For consumer marketers and retailers, current and expected changes in consumer behaviour have many implications. Pricing and marketing actions that worked six months ago may not work today, and another fresh response will be needed six months from now. Retailers and manufacturers that have a faster, deeper understanding of emerging needs and make use of new offers, new products, repositioned brands, and dynamic pricing will benefit the most from the downturn.

**Negative Views on the Economy**

U.K. consumers are well aware of the crisis: An overwhelming 97 percent believe that the economy is weaker or much weaker than normal and, more significantly, five times as many think it will get worse rather than better over the next six months. (See Exhibit 3.1)
Many consumers worry about potential loss of income as well as the decreasing values of their houses and savings. Even more are worried about price inflation of essentials like utilities, food, and fuel. (See Exhibit 3.2) Credit access to finance new purchases concerns consumers the least as they wake from the spending frenzy of the past decade.

This substantial concern about price increases on everyday items is, no doubt, the ripple effect from high inflation rates that hit consumers in 2007 and 2008. Despite a much lower inflation prognosis (Consumer Price Index 0.77 percent for 2009 vs. 3.61 percent for 2008 1), Bank of England surveys found 61 percent of consumers still expect inflation over 1 percent, and 21 percent of those think that inflation will exceed 5 percent in 2009 2. Complicating perceptions is the spectre of imported inflation; sterling’s fall against other
hard currencies could exacerbate inflation figures. Some signs of that are already visible to consumers buying foreign holidays or imported electronics. For example, Apple announced price increases of more than 20 percent in the U.K. on the back of the falling British Pound despite a predicted large decline in computer industry sales.

**Exhibit 3.2**

**Current economic situation (Respondent concern or extremely concern)**

![Bar chart showing consumer concerns]

*Source: Booz & Company Consumer Survey, February 2009*

The Wealth-Pain Connection Another major economic factor is the way household debt has increased at the same time as asset price declines have affected household wealth. The U.K. household debt-to-income ratio rose from 83 percent in 1991 to 175 percent today. Debt, in this context, is defined as all household debt, and income is disposable income. While assets such as housing, investments, and pension funds are larger than they were at the beginning of the same period, their value has also fallen substantially and may go lower.
As these balance sheet changes flow through to consumer spending, they affect different consumers in different ways. For example, people approaching retirement have seen the income from savings and the value of assets such as homes, pensions, and investments plunge, posing a real threat to their income and retirement plans. (See Exhibit 3.) On the other hand, consumers who plan to buy property and have no significant financial assets benefit from lower asset prices and low interest rates. Once confidence in their employment status returns, members of this group will resume spending.

**Exhibit 3.3**

*Personal Economic Indicators: Respondents Concerned or Extremely Concerned*

From Everyday Economising to Spending Cuts Sixty-three percent of consumers have already reduced spending over the last six months, and 51 percent of consumers plan to make further cuts over the next six months. This is a matter of confidence, not income: Only 36 percent of respondents expect
a reduction in income over the next six months. Significantly, consumers also
believe these savings measures need to be introduced just to stay on top of
increasing everyday prices and to insure against an uncertain future. No doubt
intense media coverage of the continued financial turmoil has an effect, as
does lack of clarity about (and lack of confidence in) how and when the
economy will recover. (See Exhibit 3.4)

**Exhibit 3.4**

**Expected Change in Household Income and Spending**

![Bar chart showing expected changes in household income and spending.]

*Source: Booz & Company U.K. Consumer Survey, February 2009*

During the initial stages of the economic downturn, consumers were quick to
adopt a range of savings measures across three broad categories:

- Economising through small changes to everyday spending;
- Trading down in brands and shifting to cheaper products. This includes
  shifting channels to hard discounters, for example; and
- Cutting purchases and deferring spending.
Consumers have differentiated between essential spending (e.g., food and clothing) and more discretionary spending (e.g., eating out). We also see that changes made early in the recession differ from those consumers are now planning as the recession develops and deepens. Each consumer’s behaviour is shaped by his or her individual financial situation. To craft an effective response, retailers and manufacturers need to understand the changes at a more detailed level of segmentation, including income, life stage, region, and so forth. Combined with the dynamic nature of the recession and further shifts in consumer behaviour, this poses a set of significant challenges that retailers and manufacturers will need to address. As the competition for consumer budgets intensifies, market players will need to develop new skills such as dynamic pricing capabilities which match the needs of different consumer segments. Or they will need to adjust brand and product portfolios to include more value brands that appeal to the new thriftier behaviours of their target audiences.
As a first step, consumers have already cut spending over the past six months on more discretionary, or non-essential, categories, such as eating out (57 percent of consumers), clothing (55 percent), holidays (48 percent), and beauty and personal care (47 percent). Exhibit 5 details how similar discretionary categories are in line for further cuts over the next six months. In contrast, far fewer people expect to cut back on more essential categories such as transportation, health care, and medicine. Savings measures in discretionary categories include reducing consumption frequency or even delaying or avoiding new purchases.
### Exhibit 3.6

**Saving Measures Already Adopted for Nonessential Purchases**

<table>
<thead>
<tr>
<th>Category</th>
<th>Savings Measure</th>
<th>% already adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food &amp; Drink outside the home</strong></td>
<td>Eat out less often</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>Go to pubs and bars less often</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Order less take-aways</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>Eat at less expensive restaurants</td>
<td>44%</td>
</tr>
<tr>
<td></td>
<td>Pack lunch for work</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td>Defers purchases of new clothes</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Purchase less premium brands</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>Buy more clothing on sale / out of season</td>
<td>42%</td>
</tr>
<tr>
<td></td>
<td>Shop at discount stores</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>Switch to washing and ironing at home</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Furniture and Appliance</strong></td>
<td>Delay purchasing new furnishings</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>Delay purchasing new appliances</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>Delay purchasing new electronics</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>Replace old appliances with more energy efficient ones</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>Take advantage of lower prices to buy desired product</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Leisure</strong></td>
<td>Reduce number of holidays</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>Spend more time on the internet (for leisure)</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>Spend more time watching TV</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>Entertain friends at home instead of going out</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>Cut back on concerts, plays and shows</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Beauty and personal</strong></td>
<td>Reduce haircuts, colouring</td>
<td>47%</td>
</tr>
<tr>
<td></td>
<td>Shop at discount stores</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>Purchase morestore-brand personal care products</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>Where possible, buy items in bulk</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>Reduce personal care</td>
<td>33%</td>
</tr>
</tbody>
</table>

*Source: Booz & Company U.K. Consumer Survey, February 2009 (Top five measures identified by subsets of 1,800 respondents who identified the category as one of the top three categories of concern.)*

When it comes to eating out, consumers are reducing the number of restaurant is its, trading down to fast food eateries, and reducing the frequency of takeaways. (See Exhibit 3.7.) Instead, they shift to “eating out at home” and attempt to re-create the restaurant experience and quality of food. M&S is addressing this new trend by their “Dine in for £10” campaign. In a sign of
the intense price competition, Tesco has recently reacted to this with its own £9 meal deal. There is continued growth at chains like Kentucky Fried Chicken, which recently announced plans for 9,000 more jobs and 300 more stores, and Domino’s, the purveyor of restaurant-quality pizzas, which experienced 15 percent like-for-like sales growth during the first six weeks of 2009. Of course, regional and income differences are also factors. Lower-income groups or regions have already seen significant decrease in eating out, while mid-income groups and wealthier regions will only follow suit as the recession bites more deeply.

Exhibit 3.7
Cutting Back by Eating Out Less Often

Consumers have also been cutting back on clothing and leisure purchases, and the impact is evident at retailers across the price spectrum. Some weaker players have gone into administration (e.g. Woolworths, Barratts Shoes, Principles) while others cut back their operations (e.g. Burberry). Rapid
sterling devaluation contributes to the problem: Foreign holidays and brands are becoming less and less affordable. Instead, consumers will be looking for more local attractions, an opportunity for leisure and entertainment companies.

As we now move deeper into the recession, consumers are expecting further cuts in spending and are preparing to make more dramatic changes. Next to go will be larger areas of discretionary spending, where we will see more delayed or cancelled purchases or cheaper substitutes. (See Exhibit 3.8)

Exhibit 8
Top Five Possible Savings Measures


Cutting Communication Costs in United Kingdom:
For most consumers, mobile phones, broadband Internet, and subscription television services have become essential parts of their daily lives. However, many have also acted on available money-saving opportunities, most aimed at
reducing costs without incurring significant switching costs or service charges. Consumers have turned to bundling media with the same provider, moving to pay-as-you-go tariffs, and reducing their mobile usage.

During the next six months, consumers expect to do more. They indicate an increased interest in switching providers in search of cheaper contracts, and a return to using mobile phone alternatives like landline and Voice over Internet Protocol (VoIP) options. It is unclear whether these expectations will translate into reality, but already, 20 percent of consumers have delayed purchases of new mobile phones, making handset sales dip in late 2008. Over the next six months, 45 percent more respondents plan to delay such purchases. (See Exhibit 3.9)

Exhibit 3.9
Cost-cutting Measures in Communications

*Source: Booz & Company U.K. Consumer Survey, February 2009 (based on a sample size of 158 respondents out of 1,800 who identified Telecommunications and Media as one of their top three categories of concern.)
**Value is King in Essential Categories in United Kingdom:** Pressure on income and recent experiences with price inflation mean consumers will continue to focus on daily and weekly shopping savings opportunities with 28 percent of respondents expecting to decrease overall spending. They feel they need to exercise more control and look for better value just to stay within the same budgets. Interestingly, 25 percent believe they will need to increase spending on groceries, most likely driven by expectations of price inflation and the move away from eating out. In the grocery category, consumers initially tried to stick to their normal routines and shopping channels where possible. Within those channels, they focused on economising measures such as paying more attention to price promotions, deals, and offers. They are also taking other savings measures which involve more significant behavioural changes, but with greater reluctance (See Exhibit 3.10)

**Exhibit 3.10**

**Saving Measures Already Adopted for Nonessential Purchases**

<table>
<thead>
<tr>
<th>Category</th>
<th>Savings Measure</th>
<th>% already adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Groceries</strong></td>
<td>Buy more promotional / on offer items</td>
<td>69%</td>
</tr>
<tr>
<td></td>
<td>Buy fewer treats and luxuries</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>Buy more store / value branded groceries</td>
<td>55%</td>
</tr>
<tr>
<td></td>
<td>Use coupons more frequently</td>
<td>61%</td>
</tr>
<tr>
<td></td>
<td>Increase amount spent at hard discount stores</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Private Transport</strong></td>
<td>Drive less</td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>Shop at stores closer to home</td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>Take fewer shopping trips</td>
<td>92%</td>
</tr>
<tr>
<td></td>
<td>Walk or cycle more</td>
<td>27%</td>
</tr>
<tr>
<td></td>
<td>Defer purchase of new vehicle</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Source: Booz & Company U.K. Consumer Survey, February 2009 (Top five measures identified by subsets of 1,800 respondents who identified the category as one of the top three categories of concern.)*
While consumers are planning a broad range of grocery savings options, they are not prepared to significantly sacrifice quality. Buying less fresh food is not among the top savings measures, and 31 percent of consumers say they will not switch from fresh to tin or frozen foods. On the other hand, 39 percent are already buying less prepared food, and another 38 percent plan to do it in the next six months. Consumers are willing to put more effort into preparing food from scratch, rather than sacrifice the quality of the final product. Although there is more food economising further down the socio-economic hierarchy, Exhibit 3.11 shows upper-income groups have stopped buying prepared food to a greater extent than lower-income groups. The upper-income groups are also very reluctant to stop buying fresh food, emphasising the switch to cooking at home.

**Exhibit 3.11**

**Planned Cost-Cutting Measures in Food Shopping**

*Source: Booz & Company U.K. Consumer Survey, February 2009*
Environmental concerns and social responsibility may have been demoted from the headlines, but they continue to be important considerations for existing and emerging consumers. Fair trade products have seen record sales in 2008, although organic food has proven less durable and sales have declined. A relatively small percentage of respondents sees buying less organic food as a top savings measure.

For marketers, the robustness of environmental and social concerns provides an opportunity to connect with consumers in ways that help people feel better about their cheaper choices.

**Visible Pricing Impact is Critical in United Kingdom:**

We can already measure consumer response to the crisis actions taken by retailers and manufacturers. Most consumers notice and appreciate price discounts on selected items, as well as across-the-board price cuts (81 percent and 73 percent, respectively). Other less tangible actions, such as introduction of smaller, cheaper packs and money-saving advice, are much less appreciated by shoppers. (See Exhibit 3.12)
An increasingly critical capability for retailers and manufacturers is dynamic pricing. Consumers are becoming more price-sensitive and making greater efforts to search for value. Exchange rates will aggravate downward price and margin pressures in many categories, including electronics and clothing. More than ever, retailers and manufacturers must respond and collaborate to build more sophisticated pricing capabilities. Consumers in the survey say they appreciate price promotions on selected items even more than across-the-board low pricing. Therefore, at the moment, a Hi-Lo pricing strategy will be more effective than everyday low pricing (EDLP) in standing out and capturing consumers’ attention.
More Channel Migration to Come in United Kingdom: In the future, more consumers are prepared to alter their behaviour in increasingly more significant ways. They will begin to switch channels. They expect to visit convenience stores less often (46 percent) and increase the amount spent at hard discounters (45 percent). We also see that online shopping in categories such as groceries will come under increased pressure to demonstrate value as consumers look for savings opportunities and more opportunistic “deals” in-store. (See Exhibit 3.13)

Exhibit 3.13
Respondent Plans for Daily and Weekly Food Shopping


There are also regional differences in consumers’ channel behaviour. In the past, consumers in London and South East have paid less attention to hard discounters. While historical development patterns and footprint constraints
offer some explanation, the differences still affect the regional competitive landscape. ASDA competes with other supermarkets in London, while in the North West its main competition are hard discounters. However, this trend may be changing, with London and the South East showing some of the largest changes in intent to increase spending at hard discounters (48 percent and 47 percent, respectively).

Exploiting these differences will help retailers adjust their pricing, assortment, and communication strategies and support the development of their store networks.

**Brand Loyalty Needs a Value Argument in United Kingdom:** Despite their savings measures, many consumers still expect to continue buying their usual brands, while some will switch to other branded products within the category. (See Exhibit 3.14) Brand loyalty is notably higher for tea and coffee, alcohol, and baby food. Brands in these categories either have built stronger emotional connections (e.g., alcohol, hot drinks), or still convey superior product quality and safety (e.g., baby food). In contrast, consumers are ready to trade down to less costly alternatives in confectionary, juices, desserts, ready meals, and household products categories where the product’s functional characteristics are the main decision-driver, and where retailers have proven they can match the quality and performance of branded products.
Across categories, consumers still see value in some brands and are ready to stay loyal. To win and keep that loyalty, brands need to offer stronger value propositions and prices to match consumer wallets, while investing in their emotional or functional advantages. Coca-Cola is a good example of this, defying the recessionary gloom. When the company released its 2008 fourth-quarter results, it announced that it is sticking to its long-term growth targets. Its “Happiness in a bottle” message appears to resonate with consumers during the recession, with a 4 percent global increase in sales volume during the last quarter, helped by strong growth in emerging markets.
In the face of a prolonged recession, companies will need to critically review and rebalance their brand portfolios. Second-tier and lower-priced brands will become increasingly important as retailers continue to strengthen their brands and broaden their portfolios. Retailers such as Tesco and Waitrose have already extended their brand collections at the lower end with options designed to attract customer spending, while pre-emptively addressing competition from discounters such as Aldi and Lidl.

Together with pricing, marketing remains critical to winning consumer loyalty and wallet share. Many consumer savings measures are still only plans, and it is up to retailers and manufacturers to influence consumers’ actual future behaviours. Amid falling sales and profits, many businesses are turning their attention to cost reduction, with marketing spend often an early victim. Smart companies instead seize the opportunity to better match their marketing mix to their consumers and benefit from the economics and quantifiable measurement of online, mobile, and other interactive media. By using the recession to increase their marketing effectiveness, companies can further stretch spending and build vital capabilities for the long-term.

Inference: Large amounts of household debt and the loss of property values as a wealth driver will most likely lead to a longer recession and a subsequent period of relatively slower economic growth. Consumer spending caution and lack of confidence will continue even as major, yet uncertain economic
interventions are implemented. For the foreseeable future, consumers will remain very price-sensitive, exercising caution and acting more frugally, leading to significant structural changes and channel shifts, such as the growth of low-cost retailers. Companies will also need to fundamentally adjust cost and capacity to succeed across a range of economic sectors. Delivering operational effectiveness and efficiency improvement programs and realizing cost reductions will be crucial, as will having the agility necessary to respond to, and exploit, further changes and swings as this recession progresses. Successful retailers and manufacturers will combine their market segmentation and pricing capabilities to demonstrate their empathy for consumers, and their willingness to help lead them through this recession. The retailers and manufacturers facing up to these challenges, while developing or exploiting their capabilities to navigate the shifting tides of consumer behaviour, will be ultimate winners.

**Trends of White Goods in Italy:**

The electrical white appliance industry involves 620 factories and employs 57,567 people. These figure mentioned above covers the manufacturers of larger electrical household appliances: refrigerators, washing machines, dishwashers and cookers. If we consider also those employed in firms serving the major manufacturers and those involved in the manufacture of smaller electrical household appliances, the figure rises to 200,000 employed. Thus it
is a very important sector in Italy both on the industrial level and in employment and social terms.

### Table 3.1

**Employment Trend in the Industry of Italy 1981/2001**

(Excluding Service industry)

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>2001</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>80,697</td>
<td>50,110</td>
<td>57,567</td>
</tr>
</tbody>
</table>

*source: Peter Scherrer | *EMF, General Secretary*Trends and developments in the white goods sector in Europe A working paper of the EMF

After the major downturn in the eighties, the number of jobs rose between 1991 and 2001, though the increase began to level off in subsequent years. Employment problems have begun to surface in the more recent period, on the other hand, due to either current or planned relocation towards other countries with lower labour costs.

Numerous mergers have taken place in the industry since the eighties, to the point where all the brands and factories are now concentrated in the hands of a very small numbers of companies.

### Table 3.2

**Factories in Italy**

<table>
<thead>
<tr>
<th></th>
<th>1991</th>
<th>2001</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factories</td>
<td>924</td>
<td>758</td>
<td>620</td>
</tr>
</tbody>
</table>

*source: Peter Scherrer | *EMF, General Secretary*Trends and developments in the white goods sector in Europe A working paper of the EMF

Mergers have accounted for a gradual decrease in the overall number of factories. Multinational companies Electrolux, Whirlpool, Indesit and Candy
top the bill in terms of size, importance and number of staff. Yet the component industry is very important too, with its 500 companies most of which were first set up as suppliers to a single customer but which have experiences considerable growth in the export market overtime. The merger trend in this industry is confirmed by the figure for the average number of employees per company, which rose in the nineties, unlike what occurred in virtually every other area of manufacturing in the metalworking industry. Figures for production through 2007 tell of an expanding industry enjoying constant growth both in terms of overall output and turnover. That trend turned negative in the latter part of 2008 and remained so throughout 2009, when output took a downturn and, above all, many businesses' profit margins began to shrink.

Table 3.3

Turnover Trend in the Industry of Italy from 1997 to 2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>7992</td>
</tr>
<tr>
<td>2002</td>
<td>8183</td>
</tr>
<tr>
<td>2003</td>
<td>8695</td>
</tr>
<tr>
<td>2004</td>
<td>9026</td>
</tr>
<tr>
<td>2005</td>
<td>9298</td>
</tr>
<tr>
<td>2006</td>
<td>9490</td>
</tr>
<tr>
<td>2007</td>
<td>9775</td>
</tr>
</tbody>
</table>

*source: Peter Scherrer | EMF, General Secretary | Trends and developments in the white goods sector in Europe | A working paper of the EMF
Right through the end of 2007 turnover in the industry rose constantly. Emerging countries, in particular within the 25-strong EU, are bringing a great deal of competitive pressure to bear; and companies in the industry are making huge investments in the establishment of new factories in these countries, where the technological level is good but labour costs are lower.

One of the main manufacturers of electrical household appliances on the international scene and it is still an important exporter, but in the early years of the 21st century electrical household appliance manufacturers from East Asian countries won increasing market shares in Italy too, as well as competing on the export market. The trade balance with respect to countries from that region was heavily negative in this period, although Italian manufacturers continued to enjoy a positive trade balance with all the other regions of the world. We can state that industrial output, turnover and export in the industry showed a positive growth trend from 2001 through 2010. But all the indicators have been pointing down since the third quarter of 2008. Businesses complain that their main difficulties include also the high cost of raw materials, in particular the cost of plastic and of steel. All of this makes global competition in the electrical household appliance market increasingly difficult and jeopardizes this important sector in a big way.

The leading companies have asked the trade union organisations to redefine working hours in an attempt to build new and greater flexibility into
production, in such a way as to take best advantage of all the opportunities that the market offers. In this context that points up the difficulties inherent in competing on the cost aspect of the product with countries with such different regulatory and cost environments from those in Western Europe, there is also an attempt on businesses' part to renegotiate existing agreements and to remodel the whole system of relations with the trade unions by trying to destroy the negotiating role that they have built up over the years. The trade union organisations, on the contrary, are aware that competition must be based above all on top-of-the-range products with a high quality standard and capable of fully meeting the new standards that are beginning to come into force in the EU in the field of energy saving and of the recycling of materials. That is why it is necessary to work on employees' skills, also in conjunction with universities, on research and on the development of innovative products, so that competition with other countries is not restricted simply to a matter of labour costs but, above all, to the nature of the product itself.

Yet above and beyond any understanding of the problems and identifying potential strong points, right now cost comparison and falling profit margins have prompted two of the four major multinationals to make the decision to cut back on staff. Whirlpool is planning to cut staff in its factories in the province of Varese, while Electrolux intends to cease manufacturing a refrigeration item made in the province of Florence, cutting back on staff in a
big way. If these measures are adopted, there would be an immediate impact also on other industries serving these companies.

In this high-risk environment for the industry's prospects, we have begun an institutional debate with the Industry Ministry and the Regional Authorities most concerned; and this, not only in a defensive function where many jobs are at risk but also in an effort to address the issue of the future of the electrical household appliance industry that has provided jobs and profits from the sixties to the present day.

**Trends of White Goods in Germany:**

The Federal Republic of Germany used to enjoy an international reputation for producing a high volume of household appliances. In fact, as recently as the late 1980s Germany was still responsible for churning out around one third of all household products manufactured in the European Community. Compared with the overall output of the USA, Japan and Western Europe, German suppliers accounted for just under 15% of production. At the time, Germany was in third place behind the USA and Japan. In the late 1980s some 75,000 people were still employed in the white goods sector there (as opposed to the current total of 55,000). In Germany's new federal states (the former GDR), when the Berlin Wall came down there were still remains of a household goods industry, with approximately 2,000 staff employed by regional kitchen cupboard manufacturer Foron, which manufactured the first
HCFC-free refrigerators. All that remained of this manufacturer was a development center, which has since been taken over by a Japanese group. Bosch Siemens’ household goods division in Nauen, Brandenburg, which turns out washing machines, (though originally it also manufactured driers), made the only investments in the household goods industry in eastern Germany. A final remark on the history of the white goods industry in Germany is as follows: Since the 1960s there has been marked concentration, accompanied by extensive rationalisation, and numerous bankruptcies and sales of companies. As a result, only a handful of groups are now active in the domain, compared with the large number of manufacturers there used to be.

**The industrial groups of white goods involved in Germany:**

<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Name of the company</th>
<th>Sales</th>
<th>No. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bosch &amp; Siemens</td>
<td>6 Billion €</td>
<td>14000</td>
</tr>
<tr>
<td>2</td>
<td>Bad Neustadt</td>
<td>130 million €</td>
<td>1100</td>
</tr>
<tr>
<td>3</td>
<td>Bretten</td>
<td></td>
<td>1100</td>
</tr>
<tr>
<td>4</td>
<td>Dillingen</td>
<td></td>
<td>2500</td>
</tr>
<tr>
<td>5</td>
<td>Giengen</td>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>6</td>
<td>Nauen</td>
<td>90 Million €</td>
<td>380</td>
</tr>
<tr>
<td>7</td>
<td>Traunreut</td>
<td></td>
<td>2300</td>
</tr>
</tbody>
</table>
a. **AEG Hausgeräte GmbH/Electrolux**

AEG Hausgeräte GmbH has its registered office in Nuremberg and two production plants, in Nuremberg and in Rothenberg, mostly turning out large-scale freestanding electrical appliances and fitted appliances. AEG Hausgeräte GmbH is a wholly owned subsidiary of Electrolux, based in Stockholm, Sweden. It employs around 4,300 staff. In terms of its output, Electrolux ranks second in Europe and third in the world. The Electrolux group's turnover worldwide is in excess of 13 billion €, and it employs roughly 75,000 people. AEG Rothenberg, roughly 1,100 employees; good capacity utilization re fitted ovens and hotplates, but construction of an oven factory in Eastern Europe and the loss of free-standing appliances. A new management policy entails setting up two legally hived off production lines manned by agency workers paid at below the collectively agreed rates. AEG Nuremberg, roughly 1,700 employees; production of driers and washing machines. The plant will be closed down as a result of internal benchmark comparisons. Production should be relocated to two new firms in Poland. Employees in the plant went on strike on 20th January 2006. They want to obtain a reasonable settlement, an early retirement arrangement for older workers and retraining for all those not yet eligible for pensions.

b. **Bauknecht Hausgeräte GmbH / Whirlpool**
Bauknecht was founded in 1919, but errors committed by its management led to its filing for bankruptcy in 1982. Since 1991 Bauknecht has been a wholly owned subsidiary of Whirlpool Cooperation, USA. Bauknecht Hausgeräte GmbH currently has two production sites: Schorndorf for washing machines and Neunkirchen for dishwashers. The production site in Calw (refrigerators and freezers) was closed down in 1999, affecting 380 jobs. All production was shifted to Italy. Schorndorf, roughly 1,400 employees; producing a washing machine with a capacity of 9 kg exclusively for the American market. The existence of the production site depends entirely on whether next model of this washing machine is also manufactured in Schorndorf. That decision will be taken in 2006. Neunkirchen, roughly 550 employees. Steady decrease in the number of units going to the production site in Poland. An agreement on short-time work is currently in force. When the Wroclaw plant starts turning out some 950,000 units - as will probably be the case in 2008 or 2009 - the Neunkirchen production site will be under serious threat. Under a site selection agreement guarantees have been given that the plant will continue until at least 2008 as a new generation of built-in apparatus will be produced in Neunkirchen.

**d. Miele & Cie**

Miele was founded in 1899 and has been in the possession of two families ever since. The company is currently being managed by the third and fourth
generations of these two families. Miele manufactures top-quality electrical household appliances, both for professional use and fitted kitchens. The Miele group also owns Imperial, which manufactures and distributes its own fitted appliances. Of all the companies producing electrical household goods in Germany, Miele boasts the greatest vertical range of manufacture. It still develops and produces its own electronic controls, drive units and so forth. Miele has nine production plants in Germany, the biggest being in Gütersloh (washing machines, driers, distribution center, central spare parts store) and in Bielefeld (dishwashers, vacuum cleaners). The German plants had to announce short-time work in 2005. An agreement has been concluded to safeguard the production sites until the end of 2007. After that, the group plans to shed some 1,000 jobs (in a socially acceptable manner). From 1 March 2005 onwards, a 34-hour working week was introduced which will apply for the full duration of the agreement.

- Bielefeld, roughly 1,800 employees; 18 million € is being invested here in the manufacture of a new dishwasher.

- Gutersloh, 4,800 employees; 13 million € is being invested here in a new press.

- Oelde, roughly 600 employees; roughly 7 million € is being invested in oven production here.
Miele, which primarily manufactures appliances in the top price range, is investing heavily in new ranges of goods, which will hit the market this, and next year and hopefully help to secure the jobs in Germany in the long term. The group plans to invest a total of 155 € million during the 2005 financial year.

**Employment in the white goods sector in Germany:**

Over the past decade, the employment figures have been as follows:

- **1995:** 80,000 employees
- **2000:** 63,000 employees
- **2003:** 59,000 employees
- **2005:** 55,000 employees

This trend will continue, with the fall becoming even steeper and even more jobs being lost each year unless suitable countermeasures are taken and prove successful. German companies cannot compete with cheap foreign producers in terms of prices, since the hourly wages of 1€ paid in, say, China are unbeatable. The only way to achieve a competitive edge is through innovation. Examples of innovations that will soon be viable are computer-controlled appliances for the elderly that are designed to be recycled and the exploration of possible applications involving micro- and nanotechnologies. More research and development is required, being crucial for securing the future of production sites. R&D synergies should also be sought with the
established academic infrastructure. This too would promote the survival of jobs in industry. In view of the current problems faced by the white goods industry, an appropriate industrial and structural policy in Germany and at European level must be applied to alleviate the situation and provide the necessary backing.

**Trends of White Goods in Spain:**

In Spain, White Goods sector emerged in the early 1960s and was represented by a group of small companies producing a diverse range of products. That decade was marked by a continuous increase in demand driven by the switchover to domestic services powered by electricity, the attention given to this equipment in the media and the fact that hire purchase schemes were becoming more widespread. In the 1990s, the large European companies in the sector stepped up the pace of the processes for the integration of assets and/or for cooperation at both national and international level. At European level, internationalisation policies and the opening of new markets in Asia, Africa, South America, and Eastern Europe and so on became more widespread. At this level, during the 2003 financial year, the outlook changed somewhat due to the fact that consumption prospects started to falter. It was forecast that demand for many electrical appliances would only be a demand for replacements. Generally speaking, manufacturers took the opportunity to reorganise their structures again with the aim of creating increasingly
productive organisations. Forecasts for 2005 made by Market Vision are very optimistic for our national market. Predicted growth is based on a development of around 4% for tumble dryers, dishwashers and washing machines.

**Structure of the White Goods Sector in Spain:**

The white goods sector corresponds to heading 29.7, which refers to the manufacture of domestic appliances and includes:

- Manufacture of electric domestic appliances.
- Manufacture of electric machines, appliances and devices for domestic use.
- Manufacture of electro-thermic appliances for domestic use.
- Manufacture of non-electric domestic appliances for heating and cooking.  

---

7 According to the National Classification of Economic Activities of 1993 (CNAE-93),