CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

India is being christened as the world’s fastest growing market as regards consumer durables are concerned. This phenomenon is dominantly present ever since India has adopted the policies pertaining to liberalization, globalization and privatization. The global market perspective together with advances in products, process and business technologies have brought about radical and continuous changes in the durable goods industry of India.

The Indian consumer durable goods sector is a near precise indicator of the nation’s economic well being, besides being a pointer to the distribution of prosperity among different income segments. Since the launch of the 1991-initiated economic reforms, the consumer durables sector has reflected, quite adequately, the changes in Indian consumption pattern and significantly this change is a function of household incomes, and consumer preferences, which are increasingly leaning towards new lifestyles and modern assets.

Buyers have become increasingly sophisticated, demanding more frequent innovations, greater exclusivity, more choices and better services. The growing trends towards a more active lifestyle have necessitated innovative durables to suit to the conveniences of life. These changes have increased the diversity of products in the Indian market. Manufacturers of
durables are involving newer features in their existing products. This has led to intense competition among the manufacturers. The manufacturers with their channel partners are arranging for buy-back schemes that induce customers to replacement purchase.

Buyers have different tastes, likes and dislikes which leads to different behavior in making replacement purchase decisions. The behavior of the consumer may not be uniform for all products, which has prompted this study in identifying the behavior of the consumers in replacement purchases.

In the case of replacement purchase, the behavior is likely to differ than that of first time purchase. The first time purchase may be due to necessity, whereas the replacement purchase is primarily based on the considerations viz., features, facilities, lacunas of existing product purchased and technology of new products.

Due to liberalization and privatization of Indian economy, easy finance, affordability, attractive offer to replace existing products have become easy options for customers that has led to a surge in replacement purchases in recent years. Liberalization brought economic growth and there was a rising desire for ownership and possession of assets, which became an indicator of social status.

This trend has a profound impact on the behavior exhibited by consumers of durables. The loyal purchasers of a single brand to all home appliances have shifted to the best among the brand in each of the product category and thereby variety-seeking behavior has become obvious. The late 1980s also saw the emergence of some Indian companies like British Products Limited (BPL), Videocon and Mirc Electronics on the Indian corporate scene, which redefined the norms of doing business. On the one
hand these companies invested heavily in brand building through innovative advertisements and promotion campaigns. On the other, sensing the importance of innovating on products, they entered into technological collaborations with global players (BPL with Sanyo, Japan, Videocon with National, Japan).

The durables industry took off in India during 1990s in line with the economic reforms. While on the demand side, economic growth has led to higher disposable incomes and aspiration levels, on the supply side, the Government gradually opened up the sector to foreign participations and lowered tariff and non-tariff barriers. The last ten years have witnessed the entry of multinational players who have stormed the market with internationally proven technologies, either on their own or in collaboration with established Indian players. While the multinationals were lured by the huge size of the Indian consumer market, they have failed to gauge its heterogeneity, not only in terms of affordability levels (which would define the capacity to pay) but also lifestyle (indicating the willingness to pay).

Following economic liberalization, the Government resorted to a phased reduction of both customs and excise duties. Simultaneously, the advent of cable and satellite TV spurred fresh demand for television. It also led to large scale product obsolescence, with the older sets not having the where withal to receive the large number of channels, leading to an overwhelming demand for replacement of the older sets with new ones. The success story of Akai was scripted largely on its ability to spur the replacement market, though other companies soon followed in its suit.

Changes at retail level have been another important source of competitive pressure on the industries. Retail competition has intensified at the entry of large retailers such as Vasanth & Co., Shaw & Co., Viveks,
Jainsons, VGP etc., Retailers have pursued new avenues for growth, broadening their range of merchandise and establishing new chains of formats to service different market segments. These changes have had far reaching effects on the supplies. Firstly, the ability of retailers to switch orders from one supplier to another has been used to constrain the prices and margins of firms. In addition, they have also demanded higher levels of product innovation, more service and greater flexibility from suppliers.

While new technical applications and performance characteristics have continued to improve and widen the application of consumer durables, the most significant technological changes have been brought about by the revolution in Information Technology. It has made a major contribution to the reshaping of manufacturing and retailing by enhancing the operational, logistical and marketing capabilities of companies. Initially, it was applied to improve internal efficiency, flexibility and quality control through automation. Increasingly, it has been applied to management of production process and extended to include linkages with customers and suppliers particularly the e-CRM. This has enabled a re-engineering of business processes and a reconfiguration of business networks within the supply chain. The outcome has been shorter product development, lower stockholding and improved supply chain accuracy through close integration of operations at successive stages with the retail point of sale in mind.

On account of emergence of new products in the markets, consumers are compelled to replace the existing durable goods and this has reduced the Product Life Cycle to shorter life spans. Increased level of awareness through a large number of mass media that are available in the metropolitan city of Chennai has made the diffusion rate of new products much faster than expected.
In addition to information technology, the international diffusion of management systems such as TQM and ISO as global standards has intensified international competition. Other newer management systems of significance are the quick response/efficient customer response, new designs in products with additional features and new engineering methods in-built into the product.

One of the reasons for the proliferation of durables in cities and towns has been the ‘keeping up with the Jones’ syndrome. In urban areas, where the divisions in society have been largely class-based, possession of durable assets has been considered an important indicator of social status.

Among other things the demographic trends of a country has also set the ground for the original market share as well as replacement market share for consumer durables. On this account a snapshot of the major demographic trends in India is dealt as below.

1.2 MAJOR DEMOGRAPHIC TRENDS

The major demographic trends in the country having significance for the consumer durables sector are discussed as below:

- Population growth
- Urbanization
- Household Formation
- Income Growth
- Urban – Rural Contrariety
- Asset Ownership
1.2.1 Population Growth

The basic driver for the growth in the consumer markets in India has been population growth. From 1911, the population in India has grown at an average decennial growth rate of 14.4% (or an annual growth rate of 1.36%). The annualized growth rate in population climbed to 2.24% in the 1960s decade, after which it has shown a marginal drop over the following two decades, with increasing national concern over population growth.

1.2.2 Urbanization

In addition to population growth, increasing urbanization, caused by both migration of people from rural to urban areas as well as the natural growth of urban population, has also been a major feature of the country’s demographics. This is likely to continue in future as well, and it is expected that by 2011, almost one-third of the Indian population would be residing in urban areas.

The process of urbanization tends to produce large urban cluster. Cities, which are already big, tend to pull more people towards themselves. The share of the urban population residing in Class I cities has gone up significantly form 1951 to 2001.

1.2.3 Household Formation

Although population growth is a major determinant of consumer market growth, a parameter of even greater importance for consumer durables sector is the rate of household formation. Over the decade financial year 1996 to 2006, household formation has been more rapid than the population growth. This is indicative of the reducing family size and trend towards nuclear families.
1.2.4 Income Growth

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 the 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. Taking household incomes as the basis, the National Council for Applied Economic Research (NCAER) has broadly classified Indian households into five income strata – Low (L), Lower Middle (LM), Middle (M), Upper Middle (UM), and High (H). NCAERs Market information Survey of Households has estimated the number of households in each income strata for both urban and rural areas and it indicates consistent increase.

1.2.5 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. An indicator to that is the average monthly expenditures on consumer goods (including consumer durables as non – durables) in the urban and rural areas. According to the National Sample Survey estimates, for the country as a whole, the disparity between consumption expenditures in rural and urban areas is 79.1%. The disparity levels were comparatively higher in some states like Maharashtra, Orissa, West Bengal and Karnataka, and relatively lower in states like Haryana, Kerala, Gujarat, Tamil Nadu and Uttar Pradesh.

1.2.6 Asset Ownership

Increasing household incomes have led to an improvement in affordability levels in terms of greater disposable incomes, leading to
increased ownership of durable assets. According to NCEAR estimates (on ownership patterns of 31 durable items), the number of durable goods owned by the Indian households grow at a compounded annual growth rate (CAGR) of 10.75%. Add to the above, the economic reforms, set in action in 1990 spurred the growth of the durable sector in India. Some of the reforms are discussed as below.

1.3 THE ECONOMIC REFORMS OF THE GOVERNMENT OF INDIA, 1990

The Government of India in the early 1990’s has initiated the economic reforms, which has given a fillip to consumer durables Industry. On that line a brief review of the reforms and its impact on the Indian Economy is presented below.

1.3.1 Impact of Reforms

The reforms initiated in the early 1990s have had a significant impact on the income as well as on asset purchases. The impact of reforms initiated has led to the following reforms:

- Income Classification
- Large Market For Durables
- Greater Prosperity And Higher Consumption Levels
- Demographic Shift Towards Higher Consuming Groups
- Persistence Of Urban Skew Ness In Consumption Patterns

1.3.1.1 Income Classification

Income classification pattern in pre and post reform period is shown in Table 1.1.
In the pre-reforms period, between 1985-86 and 1990-91, the proportion of low-income households dropped by 6.4% ie. from 65.24% to 58.84%. However, during from 1995-96 to 2000-01, the proportion was dropped by 9.25%. The growth in the lower middle-income group was much higher in the post reform period as compared to the pre-reform period, since it absorbed more low-income households, which moved into this category. An aspect that holds significance especially for the high-valued durable items is the growth in the high-income segment, which was much more rapid in the post-reform period than in pre-reform period.

1.3.1.2 Greater Prosperity And Higher Consumption Levels

The decline in poverty ratio has led to a greater prosperity and higher consumption level. Sharp decline in poverty ratio over the decade is shown in Table 1.2.
Table 1.2  Projected decline in overall poverty ratios in India (percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>1993-94</th>
<th>2001-02</th>
<th>2006-07*</th>
<th>2011-12*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty rate (%)</td>
<td>36.00</td>
<td>17.98</td>
<td>9.53</td>
<td>4.37</td>
</tr>
</tbody>
</table>

Source: Statistical Outline of India 2001-02, Tata Services Limited (quoting planning commission estimates)

* Projected

The continuance of economic growth of the country is likely to lead an increase in prosperity levels throughout the country. Since the poor manage to earn only enough to support their subsistence, the decline in poverty levels would have a significant favorable impact on the growth of household consumption expenditure. Table 1.3 projects an increase in the growth rates in per capita household consumption during the IX, X and XI plan periods in select states.

Table 1.3  Projected growth rates in per capita household consumption in select states

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>4.75</td>
<td>5.26</td>
<td>5.83</td>
</tr>
<tr>
<td>Assam</td>
<td>4.62</td>
<td>4.81</td>
<td>5.47</td>
</tr>
<tr>
<td>Gujarat</td>
<td>4.43</td>
<td>4.94</td>
<td>5.52</td>
</tr>
<tr>
<td>Kerala</td>
<td>5.01</td>
<td>5.31</td>
<td>6.03</td>
</tr>
<tr>
<td>Orissa</td>
<td>4.99</td>
<td>5.41</td>
<td>6.00</td>
</tr>
<tr>
<td>Punjab</td>
<td>4.79</td>
<td>5.17</td>
<td>5.80</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>3.59</td>
<td>4.13</td>
<td>5.92</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>3.62</td>
<td>4.18</td>
<td>4.47</td>
</tr>
<tr>
<td>West Bengal</td>
<td>4.55</td>
<td>5.00</td>
<td>5.59</td>
</tr>
<tr>
<td>All India</td>
<td>4.29</td>
<td>4.76</td>
<td>5.31</td>
</tr>
</tbody>
</table>

Source: Statistical Outline of India, 2001-02, Tata Services Limited.

* Projected
1.3.1.3 Persistence of urban Skewness in consumption patterns

In spite of the overall trends towards growth in consumption levels, the skewness towards urban areas is likely to persist. An analysis of the differences in the market structure between the urban and the rural areas reveals that the movement between different consumer groups seems to be faster and the same is shown in Table 1.4.

Table 1.4 Consumer group classification

<table>
<thead>
<tr>
<th>Consumer group</th>
<th>Definition</th>
<th>Annual Income Range (Rs.) (at 1994-95 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Destitute</td>
<td>Who consume very little of manufactured goods</td>
<td>Below 16,000</td>
</tr>
<tr>
<td>Aspirants</td>
<td>Who purchase a few inexpensive consumer goods like Radio/transistor sets and bicycles</td>
<td>16,001 to 22,000</td>
</tr>
<tr>
<td>Climbers</td>
<td>Who own and/or purchase slightly more expensive durables like B&amp;W TVs, sewing machines and mixer grinders</td>
<td>Between 22,001 and 45,000</td>
</tr>
<tr>
<td>Consuming class</td>
<td>Buys the bulk the consumer goods in the country</td>
<td>Between 45,001 and 2,15,000</td>
</tr>
<tr>
<td>Very rich</td>
<td>Who buy most expensive consumer products</td>
<td>Over 2,15,000</td>
</tr>
</tbody>
</table>

1.3.1.4 Demographic Shift Towards Higher Consuming Groups

The consumer group is classified as very rich, consuming class, aspirants and destitutes by the NCAER. The shift towards higher consuming group is given in Table 1.5.
Table 1.5  Projected size of consumer groups (2001-02 and 2006-07)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Very Rich</td>
<td>0.3</td>
<td>0.7</td>
<td>1.0</td>
<td>0.7</td>
<td>1.9</td>
<td>2.6</td>
<td>1.2</td>
<td>4.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Consuming Class</td>
<td>14.3</td>
<td>14.3</td>
<td>28.6</td>
<td>20.0</td>
<td>26.0</td>
<td>46.0</td>
<td>34.9</td>
<td>40.3</td>
<td>75.2</td>
</tr>
<tr>
<td>Aspirants</td>
<td>39.7</td>
<td>8.3</td>
<td>48.0</td>
<td>29.4</td>
<td>3.8</td>
<td>33.2</td>
<td>19.6</td>
<td>0.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Destitutes</td>
<td>28.9</td>
<td>6.1</td>
<td>35.0</td>
<td>21.5</td>
<td>2.7</td>
<td>24.2</td>
<td>15.6</td>
<td>0.9</td>
<td>16.5</td>
</tr>
</tbody>
</table>

Source: TV Veopar Journal April-May, 2001 (Veopar means Business)

According to NCAER’s survey, there is likely to be a decrease in the number of households in the lower consumer groups – Destitute and Aspirants, while the higher consumer classes are likely to see rapid growth. The very Rich group is likely to grow at a CAGR of 154.7%, consuming class at 8.4% and climber at 4.5%. On the other hand, the Aspirants group is likely to shrink at rate of 6.9% and Destitute at 6.1%.

The analysis presented above indicate upward movement in the standard of living of people. This in turn might lead to aspiring for brand new products and replacing existing products.

Further, from the post-reforms period of liberalization in India have led to an increase in Foreign Direct Investment into India. This has resulted in huge supply of capital to industries, particularly the consumer durables industry. The policy of globalization has also opened the floodgates to foreign brands. These changes have introduced durables of different kinds and types.
with newer features in the market. Consumers therefore prefer to change their existing brand of product to the recently introduced products in the market.

1.4 NEED FOR THE STUDY

The need for the study can be spelt out both from the micro as well as macro perspective.

The micro perspective involves understanding the buyer involved in the replacement purchases their characteristics, behavioral pattern, behavioral intentions, variables influencing the replacement purchases and the like.

Knowledge on these aspects provide meaningful input for the marketer to arrive at appropriate marketing mix for the replacement market.

From the macro perspective the study would reveal consumers collective influence on economic and social conditions of the society.

1.5 STATEMENT OF THE PROBLEM

The Indian consumer goods industry is witnessing a boom ever since the introduction of liberalization, privatization and globalization measures by the Government of India. There appears an all round growth in terms of the variety of products produced and the quality of the products.

The boom is further activated by the inflow of Foreign Direct Investments. The economy has opened up, the lifestyle of the people is constantly changing, the standard of living is improving, the telecommunications and infra-structure has remarkably improved. People
became tech savvy, quality centered and constantly in search of value for money. The players in the durable goods industry on the other hand are vying with each other in obtaining and sustaining maximum market share for their respective brands. It is in tune with the process of economic and socio-cultural development added with technology advancements and spending power, customers who have acquired products that meet certain specific requirements may like to go over to replacing the products in anticipation of further delightment. This may be due to reasons such as technology advancement, availability of global brands, enhanced purchasing power, added expectations and also due to the impact of dissonance factors.

The shift that is taking place in the market by means of replacement purchase is always interesting to observe. It leaves with the questions that are difficult but pertinent to answer namely:

- What factors influence the replacement decision?
- Do replacement purchase differ in accordance to product type?
- What are the expectations in association with replacement purchase?
- Is there a shift in brand preference? and many more such questions.

Answer to these questions would provide valuable input to marketing strategists to encounter the growing challenges of replacement market. This obviously needs a scientific investigation of consumer behavior with specific reference to replacement purchase and that forms as the problem identified for the study.
1.6 OBJECTIVES OF THE STUDY

1.6.1 Major Objective

To Study the replacement purchase with reference to select consumer durables.

1.6.2 Secondary Objectives

1. To review the market scenario of the products identified for the study.

2. To present the profile of buyers considered for the study.

3. To identify and evaluate the variables influencing replacement purchase behavior.

4. To categorize replacement buyers based on the extent of influence of select variables as regards replacement purchase and to examine the possible relationship between the buyer categories and the demographic variables.

5. To explore the extent of brand association as regards replacement purchase and to analyze the possible relationship between replacement buyer category and the extent of brand association.

6. To investigate the influence of product specific factors and source of information on the replacement buyers.

7. To perform gap analysis between the pre-replacement expectations of replacement buyers and post-replacement satisfaction.

8. To propose a qualitative model depicting the replacement purchase behavior.
1.7 PRODUCTS CONSIDERED FOR THE STUDY

Home appliances play a major role in a typical urban family characterized mostly by dual income and a higher standard of living, making life a challenge.

The researcher in order to identify the products that have a high rate of replacement has carried out an observational study. The researcher also had detailed discussion with marketing managers of various manufacturing companies and the managers of large-scale retail outlets of the study area. On that basis the product identified for the study are; Television, Refrigerator and Washing Machine.

The other specific reasons underlying replacement in these products are discussed as below:

1.7.1 Television

The demand for replacement of Color Television’s has risen on account of international sporting events like Olympics, World Cup tournaments in cricket and football and others. The monochrome sets in the absence of the S-band were not technically fit to receive large number of channels. This prompted the customers to replace the monochrome or existing sets to more advanced sets in the market. The increase in the penetration of cable and satellite TV has been a prominent driver for replacement in television sets. The percentage of cable and satellite households to total television households rose from about 11% in 1992 to around 40% in 1998 (source: July, 1999 TV Veopar Journal). Between these years there has also been the growth in the number of channels, both national and international, and especially in the regional languages, which enabled demand proliferation.
for cable TV, indirectly increasing the demand for technologically advanced sets, thus inducing replacement.

In recent times, TV has come to stay as a Convergence Product. The recent innovation in TV is its use as a means for accessing the Internet, in place of the personal computer (PC). Attaching a set-top box to an already exiting conventional TV or through a new Internet TV, having the wherewithal to access the Internet, can do this either. A set-top box is a simple gadget for decoding the digital signals from the Net and converting them into a format that can be followed by a TV set.

1.7.2 Refrigerator

Over the last five years, new models of refrigerator have been introduced in the market incorporating advanced features. These are of both utility value and better aesthetics. Utility features include frost-free operations, faster ice making facility, availability of larger refrigerator space and de-odorizing capability. Aesthetics features include glossy finish, sleek doors; double or triple door refrigerators, and refrigerators with pre-coated metal sheets. This is likely to induce customers to replacement purchase.

The older manufacturers like, Voltas, Kelvinator have either stopped production of refrigerators to the home sector or discontinued the earlier models. This has led to non-availability of spare parts and lack of service facility. This could also prompt consumers to replace their existing product.
1.7.3 **Washing Machine**

Washing machines in recent times has been launched with models of advanced features, which have increased convenience and improved handling of fabrics. The appeal of the product is made to look sleek and attractive. A number of advanced features such as automatic time wash, hot water option and dryer are attached as an integral part of the machine. These features induce customers to the new models of washing machine.

1.8 **SCOPE OF THE STUDY**

The study is primarily aimed to identify the profile of customers of replacement purchase of durables, the extent of influence of product factors and service factors in the replacement purchase of durables.

The study is also beneficial in attempting to find the source of information, the extent to which decision-making is influenced by other members of the family in the replacement of consumer durables considered in the study. The study area is confined to Chennai, the capital city of Tamil Nadu.

1.9 **LIMITATIONS OF THE STUDY**

The following are the limitations of the study:

1. The findings of the study are purely on the basis of the outcome of the responses of the respondents to the study. The respondents are those customers who have replaced all or any of the products considered for the study.
2. Responses are subject to bias. The researcher however has made a sincere attempt to minimize this bias.

3. The study has been carried out in Chennai city only and as such generalizations of the study findings need enough care and caution.

4. The consumer durable replacement market is very large. And as such no clear statistics is available through the whole of the country of this market. The present study covers only three products, namely the television, refrigerator and the washing machine.

5. Unlike demographics, many life style factors are difficult to measure as it is subjective and is usually based on self-report of the customers and is sometimes hidden form the researcher’s view to avoid embarrassment and to protect privacy.

6. The limitations that are applicable to any study in the field of social sciences are applicable to the present study.

1.10 USEFULNESS OF THE STUDY

The study gives an insight of the buyers purchase pattern in replacement of durables, namely the Television, Refrigerator, and the Washing Machine. The study reveals the appropriate lifestyle category of replacement buyers, their demographic profile and also throws light on the product and service factors that are important to customers in the replacement purchase. This would help the manufacturer to have an insight as to the product and service factors that are important in replacement purchase of the durables under study.
The policy of globalization has also opened the floodgates to foreign brands. These changes have introduced durables of different kinds and types with newer features in the market. Consumers therefore prefer to change their existing brand of product to the recently introduced products in the market.

1.11 SUMMARY

The chapter discusses the need for the study, usefulness of the study, sets the background of the study area, its history and importance in the study. The following chapter provides an insight into research design and methodology adopted for the study.