

## A study on effectiveness of advertising on buyers of consumer durables

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### Abstract

The Indian consumer durables industry has witnessed a considerable change in the past couple of years. Changing lifestyle, higher disposable income coupled with greater affordability and a surge in advertising has been instrumental in bringing about a sea change in the consumer behavior pattern. This industry consists of durable goods used for domestic purposes such as televisions, washing machines, refrigerators, microwave ovens, mobile phones etc. The growth in the consumer durables sector has been driven primarily by factors such as the boom in the real estate & housing industry, higher disposable income, emergence of the retail industry in a big way coupled with rising affluence levels of a considerable section of the population.

**Keywords:** consumer, durable, industry

### Introduction

As per a survey conducted by FICCI on the Indian consumer durables industry, a shift in consumer preferences towards higher-end, technologically advanced branded products has been quite discernable. This shift can be explained by narrowing differentials between the prices of branded and unbranded products added with the high quality of after sales service provided by the branded players. The shift has also been triggered by the availability of foreign branded products in India owing to lower import duties coupled with other liberal measures as introduced by the government.

**Industry Classification** The consumer durables industry can be broadly classified as consumer electronics and consumer appliances. The consumer appliances category can be further segmented as white goods and brown goods.

### Consumer Durables Industry Size, Growth and Trends

The Consumer Durables industry consists of durable goods and appliances for domestic use such as televisions, refrigerators, air conditioners and washing machines. Instruments such as cell phones and kitchen appliances like microwave ovens are also included in this category. The sector has been witnessing significant growth in recent years, helped by several drivers such as the emerging retail boom, real estate and housing demand, greater disposable income and an overall increase in the level of affluence of a significant section of the population. The industry is represented by major international and local players such as BPL, Videocon, Voltas, Blue Star, MIRC Electronics, Titan, Whirlpool etc.

During FY07, volume share of the single largest consumer durable was colour TVs at 30%, followed by refrigerators and air conditioners at 18% and 13% respectively. Washing machines and other assorted consumer durables captured a share in the total volume by 5% and 34% respectively.

### The key growth drivers for the Indian consumer durables Industry

- **Rise in disposable income:** The demand for consumer electronics has been rising with the increase in disposable income coupled with more and more consumers falling

under the double income families. The growing Indian middle class is an attraction for companies who are out there to woo them.

- **Availability of newer variants of a product:** Consumers are spoilt for choice when it comes to choosing products. Newer variants of a product will help a company in getting the attention of consumers who look for innovation in products.
- **Product pricing:** The consumer durables industry is highly price sensitive, making price the determining factor in increasing volumes, at least for lower range consumers. For middle and upper range consumers, it is the brand name, technology and product features that are important.
- **Availability of financing schemes:** Availability of credit and the structure of the loan determine the affordability of the product. Sale of a particular product is determined by the cost of credit as much as the flexibility of the scheme.
- **Rise in the share of organized retail:** Rise in organized retail will set the growth pace of the Indian consumer durables industry. According to a working paper released by the Indian Council for Research on International Economic Relations (ICRIER), organised retail which constituted a mere four percent of the retail sector in FY07 is likely to grow at 45-50% per annum and quadruple its share in the total retail price 16% by 2011-2012. The share will grow with bigger players entering the market.
- **Innovative advertising and brand promotion:** Sales promotion measures such as discounts, free gifts and exchange offers help a company in distinguishing itself from others.
- **Festive season sales:** Demand for colour TVs usually pick up during the festive seasons. As a result most companies come out with offers during this period to cash in on the festive mood. This period will continue to be the growth driver for consumer durable companies. The consumer durables industry can be broadly classified into two segments: Consumer Electronics and Consumer Appliances. Consumer Appliances can be further categorised into Brown Goods and White Goods. The key product lines under each segment are as follows.

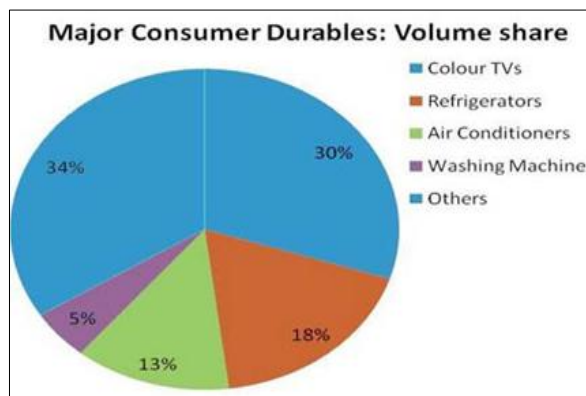
### Industry Size, Growth, Trends

The consumer durables market in India was estimated to be around US\$ 4.5 billion in 2014-15. More than 7 million units of consumer durable appliances have been sold in the year 2014-15 with colour televisions (CTV) forming the bulk of the sales with 30 per cent share of volumes. CTV refrigerators and air-conditioners together constitute more than 60 per cent of the sales in terms of the number of units sold.

Table 1

Key consumer durables share by volume	
Colour Television (CTVs)	30%
Refrigerator	18%
Air conditioners	13%
Washing Machines	5%
Others	34%

In the refrigerators market, the frost-free category has grown by 8.3 per cent while direct cool segment has grown by 9 per cent. Companies like LG, Whirlpool and Samsung have registered double-digit growth in the direct cool refrigerator market. In the case of washing machines, the semi-automatic category with a higher base and fully-automatic categories have grown by 4 per cent to 526,000 units and by 8 per cent to 229,000 units, respectively. In the air-conditioners segment, the sales of window ACs have grown by 32 per cent and that of split ACs by 97 per cent. Since, the penetration in the urban areas for these products is already quite high, the markets for both CTVs and refrigerators are shifting to the semi-urban and rural areas. The growth across product categories in different segments is assessed in the following sections.



Source: Center for Monitoring Indian Economy (CMIE)

Fig 1

### 1.3 Major hurdles and challenges plaguing the Indian consumer durables sector:

- **Threat from new entrants, especially global companies:** The domestic consumer durables sector faces threat from newer companies, especially from global ones who have technologically advanced products to offer.
- **Rivalry and competition:** Presence of a large number of players in the domestic consumer durables industry leads to competition and rivalry among companies. Threat from rivalry and competition poses a threat to domestic companies.
- **Potential markets remaining yet untapped:** A large segment of the domestic market, mostly the rural market is yet to be tapped. Tapping this yet untapped and

unorganized market is a major challenge for the Indian consumer durables sector.

- **Threat from substitute products/services:** The domestic consumer durables industry is plagued by threats from substitute products. Easy accessibility to theatres/multiplexes, especially in urban areas has turned off the viewership from TV to a large extent. With the advent of a horde of FM radio stations, radio sets have now substituted TVs.
- **Customer power with respect to availability of choice:** The availability of a wide product line on account of most products being homogeneous, poses a threat for companies operating in the consumer durables sector. Customers have the choice of both domestically produced and imported goods, with similar features.

Consumer durables involve any type of products purchased by consumers that are manufactured for long-term use. As opposed to many goods that are intended for consumption in the short term, consumer durables are intended to endure regular usage for several years or longer before replacement of the consumer products are required. Just about every household will contain at least a few items that may be properly considered to be of a consumer durable nature.

Consumer durables are the products whose life expectancy is at least 3 years. These products are hard goods that cannot be used up at once. The consumer durables sector can be segmented into consumer electronics, such as, VCD/DVD, home theatre, music players, color televisions (CTVs) etc. and white goods, such as, dish washers, air conditioners, water heaters, washing machines, refrigerators etc.

According to Suppli Corporation (Applied Market Intelligence), country's fiscal policy has encouraged Indian consumer electronic industry. The reduction on import duty in the year 2005-06 has benefited many companies, such as Samsung, LG and Sony. These companies import their premium end products from manufacturing facilities that are located outside India. Indian consumers are now replacing their existing appliances with frost-free refrigerators, split air conditioners, fully automatic washing machines and color televisions (CTVs), which are boosting the sales in these categories. Some companies like Samsung Electronics Co. Ltd. and LG Electronics India Ltd. are now focusing on rural areas also. These companies are introducing gift schemes and providing easy finance to capture the consumer base in rural areas.

Table 2: Growth in 2014-15

On Sumer Durables	Growth
Air Conditioner	20-25%
Refrigerator	5-10%
Microwave Ovens	25%
Washing Machines	5-10%
Color Televisions (CTVs)	15-20%
Black & White Televisions	-20%
Clock	10%
Watch	10%
VCDs	30%
Consumer Electronics (Overall)	9%

Source: Center for Monitoring Indian Economy (CMIE)

The consumer durable goods sector has shown a quantum leap in growth, owing to strong fundamentals of the economy and

emerging opportunities, in terms of technological improvements, falling prices due to competition, aggressive and innovative marketing and declining import tariffs. This was found out in a comprehensive survey on the sector that was conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI).

According to the survey, the consumer durable goods sector is worth around Rs 35,000 crore in 2014-15 with 11.5 per cent growth, against 8.5 per cent growth the previous year. The sector is also expected to achieve about 12 per cent overall growth in the year 2007-08. It is projected to achieve excellent growth rates of more than 20 per cent in terms of quantity produced in high-end TV's, MP3's, DVD's, split AC's, high-end washing machines, micro wave ovens etc.

With rising GDP growth and purchasing power of people, there has been a discernible shift in the consumers' preference in favour of high-end, technologically superior branded products and new models, despite recent price hikes made by companies to offset rising costs across all segments. At the same time, attractive schemes by financial institutions, commercial banks and from companies themselves through their extensive dealer network are attracting consumers. Besides, companies are also exploring new media to outreach markets for consumer durable products, leading to intelligent sale of products.

The industry is also developing innovative products like technological up gradation and pricing, which are currently the key drivers in a competitive market. For instance, post Videocon's acquisition of Electrolux, the company is working towards increasing its presence across India, while Godrej & Boyce is planning to double its frost-free refrigerator manufacturing capacity by augmenting its plant in Shirwal near Pune, with an investment of around Rs 100 crore. Also, LG, Voltas and Whirlpool are going aggressively on mass volumes segment, while Sanyo-BPL is also set to launch home and industrial AC's to take advantage of the retail boom in the country. The industry is expecting more growth to take place in class B and C towns, rather than in metros.

Many companies are also reworking strategies and setting up new retail units to ensure brand visibility and promote growth. The possibility of FDI in retail has also led existing retailers to enter in this segment. The FICCI survey also highlights some of the basic issues and difficulties that are being faced by the industry and highlights the need for taking some pro-active actions and measures that should be taken by the government to enable the industry to have sustained growth.

Some of the core issues that need to be tackled are the increase in input costs due to rising prices of copper, steel, aluminum, plastic etc.; high excise duty of eight per cent; high level of sales tax, of 12-20 per cent; fluctuation and appreciation of the rupee; inadequate availability of finance; and poor and inadequate infrastructure, in terms of power and transport in major parts of the country. Consumer durables are no longer luxury items

In 2008, the consumer durables industry posted tremendous growth in 2009, which more than compensated for the fallen year. Now, Indian consumers are eager to replace their existing refrigerators with frost-free models, window air conditioner with split ACs, semiautomatic washing machines with fully automatic ones and colour televisions with premium LCDs and LED TVs, which are boosting sales of players like Samsung, LG, Panasonic, Sony, Videocon and others. The competition between consumer durable giants is building up as market

leader LG, Sony and Samsung ramp up production capabilities and investments for India. The market share of MNCs in the domestic consumer durables sector is 65% as they primarily target the lucrative middle class segment.

On the other hand, Indian firms such as Videocon and Onida are aggressively competing with MNCs on the basis of their local market knowledge and wider distribution network. LG will be investing Rs 600 crore in marketing and new product development to ramp up sales and maintain its market leadership position. It is targeting 35% growth in its Indian operations in 2010, focusing on products such as ACs and TVs. The company has a 29% share in the AC market and expects to end the year with a 32% share.

With the increase in income levels, easy availability of finance, increase in consumer awareness and introduction of new models, the demand for consumer durables has increased significantly. Products like washing machines, air conditioners, microwave ovens, color televisions (CTVs) are no longer considered luxury items. The government's liberal fiscal policy has also encouraged the consumer electronic industry to expand production with the help of localization.

The reduction in import duty few years back has benefited these companies as they import their premium end products from manufacturing facilities outside India. According to industry sources, in 2010, air-conditioners are expected to grow 25%, split air-conditioners 60%, frost-free refrigerators 54%, washing machines 20%, fully automatic washing machines 35%, microwave ovens 35%, high-end flat panel TV 100%, LCD TVs 110% and the plasma TV are likely to register a 100% growth.

But, the penetration level of all consumer electronics and durables categories is still very low as government spending on infrastructure has not kept up the pace with the demand. Players believe pricing will play an important role in increasing the penetration level. And, pricing is dependent on raw material costs and excise duties. Companies are demanding quick implementation of GST (goods and service tax), which can bring about a considerable reduction in the prices of products. "While we expect this Budget to address macro issues which would impact demand generation, industry also needs administrative and tax reforms in various areas like for movement of goods and double taxation. Hope that in 2010 the government keeps intact sops announced last year to cushion the impact of the global economic downturn," said, Eric Braganza, president, Haier Appliances India.

The industry expects the government to deepen its focus on the rural economy with greater fiscal incentives and rural employment, as the rural demand will get a boost. Manufacturers are hoping for policies that result in higher disposable incomes in the hands of customers so that they loosen up their purse strings and it results in higher sales for them. The Indian consumer durables industry has witnessed a considerable change in the past couple of years. Changing lifestyle, higher disposable income coupled with greater affordability and a surge in advertising has been instrumental in bringing about a sea change in the consumer behavior pattern. This industry consists of durable goods used for domestic purposes such as televisions, washing machines, refrigerators, microwave ovens, mobile phones etc. The growth in the consumer durables sector has been driven primarily by factors such as the boom in the real estate & housing industry, higher disposable income, emergence of the retail industry in a

big way coupled with rising affluence levels of a considerable section of the population. As per a survey conducted by FICCI on the Indian consumer durables industry, a shift in consumer preferences towards higher-end, technologically advanced branded products has been quite discernable. This shift can be explained by narrowing differentials between the prices of branded and unbranded products added with the high quality of after sales service provided by the branded players. The shift has also been triggered by the availability of foreign branded products in India owing to lower import duties coupled with other liberal measures as introduced by the government.

**Classification of Consumer Durables Sector**

- Consumer Electronics includes VCD/DVD, home theatre, music players; color
- Televisions (CTVs), cameras, camcorders, portable audio, Hi-Fi etc.
- White Goods include dishwashers, air conditioners, water heaters, washing machines, refrigerators, vacuum cleaners, kitchen appliances, non-kitchen appliances, microwaves, built-in appliances; tumble dryer, personal care products etc.
- Moulded Luggage includes plastics.
- Clocks and Watches
- Mobile Phones

**Current Scenario**

The consumer durables market in India is valued at US \$ 4.5 billion currently. In 2006, microwave ovens and air conditioners registered a growth of about 25%. Frost-free refrigerators have registered significant growth as many urban families are replacing their old refrigerators. Refrigerator sales amounted to 4.2 million in 2006, whereas the production of the refrigerators went up by 17% as compared to the preceding year. Washing machines, which have always seen poor growth, have seen reasonable growth in 2006. More and more Indians

are now buying electrical appliances due to change in electricity scenario. The penetration level of color televisions (CTVs) is expected to increase 3 times by 2007. According to National Council for Applied Economic Research (NCAER), Indian consumer class is growing at a fast rate. This in turn is benefiting the consumer durables manufacturers

**Future Scenario**

With easy availability of finance, emergence of double-income families, fall in prices due to increased competition, government support, growth of media, availability of disposable incomes, improvements in technology, reduction in customs duty, rise in temperatures, growth in consumer base of rural sector, the consumer durables industry is growing at a fast pace. Given these factors, a good growth is projected in the future, too. The penetration level of consumer durables is very low in India, as compared with other countries. This translates into vast unrealized potential for example, in case of color televisions (CTVs), the penetration level of various countries is:

**Table 3**

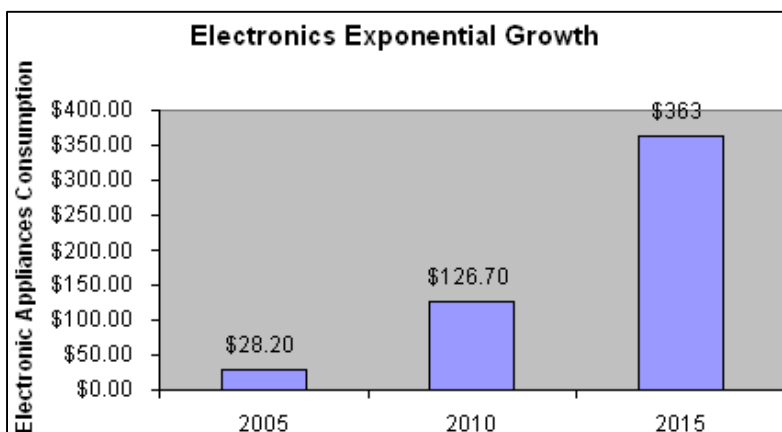
India	24%
Brazil	11%
China	98%
US	333%
France	235%
Japan	250%

Source: Center for Monitoring Indian Economy (CMIE)

**1.6 Demand and Penetration level of White Goods in India**

**Table 4**

	1995-1996	2005-2006	2009-2010
<b>Demand</b>	3.43 million	8.72 million	13.14 million
<b>Penetration level</b>	149 per 1,000 households	319 per 1,000 households	451 per 1,000 households



**Fig 2:** in Billions

In a study conducted by Frost & Sullivan and commissioned by India Semiconductor Association (ISA), the demand for Electronic Appliances is projected to grow exponentially at a Compounded Annual Growth Rate (CAGR) of 30%. Figure No. 2

**Career in Consumer Durables Sector**

The consumer durables sector is characterized by high competition- especially from international brands- because of

which most organizations are innovating product marketing strategies through organizational change and process re-engineering. This has resulted in increased demand for skills at various levels. As the need for innovative products rises, the need for talented candidates also rises. The sector requires people who are technically competent and get along well with the company's specific requirements.

Before the liberalization of the Indian economy, only a few companies like Kelvinator, Godrej, Allwyn and Voltas were

the major players in the consumer durables market, accounting for no less than 90% of the market. Then, after the liberalization, foreign players like LG, Sony, Samsung, Whirlpool, Daewoo, and Aiwa came into the picture. Today, these players control the major share of the consumer durables market.

Consumer durables market is expected to grow at 10-15% in 2014-2015. It is growing very fast because of rise in living standards, easy access to consumer finance and wide range of choice, as many foreign players are entering in the market. On the flip side, the presence of a large number of players in the consumer durables market sometimes results in excess supply. The market has been transformed by the entry of over a dozen new brands, moreover competition has intensified. While focus on price competency remains a key priority, players have also started focusing on other product features such as safety and total cost of ownership of the device. Goods, like the rice cooker have been continuously growing in a slow and steady manner over a significant period of time, while microwave ovens have grown exponentially after the initial period of customization to local requirements. The electrical iron market can be divided into two segments: heavy and light-weight. The market is also segmented into two sub-segments: steam and non-steam irons. India being a tropical country, electric fans are an essential utility for more than six months of the year in most parts of the country. The present market size is estimated at around 11.6 million pieces. The market is divided among ceiling, pedestal, wall and table fans. Industrial and exhaust fans are another important segment. The major players include Orient Fan, Crompton Greaves, Jay Engineering, Bajaj Electricals, Polar, Khaitan and Alsthom.

The electrical appliances industry, which had been focused on the urban market, is now reaching out to semi-urban and rural markets as well, because of the shift in living style of the population, increasing electrification of villages and relatively higher purchasing power of consumers. As the market penetrates into the core middle class segment in both urban and rural areas, it is expected to expand phenomenally, offering large volumes to the industry.

In consumer durables, mixer grinder was one of the earliest products to breach the protective walls of the Indian home. Ever since its introduction in the mid 1970's the demand for mixer grinder has been growing. The mixer grinder has now become more of a necessity than a luxury. In today's world in which the house wives have no time to struggle with the daily chores in the kitchen, the mixer grinder has proved to be a boon. Like in the case of other consumer durables, the mixer grinder market is also very crowded. There are many Indian Companies concentrating only on this segment of consumer durable.

But now in the last couple of years a number of multinational companies have entered this market. Their entries have really benefited the consumers to a great extent, as it has forced the Indian brands to upgrade their products. Also now, the consumers have a variety of brands to choose from. Above all, the ordinary consumer is now that the product owns would be the best.

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