

# Segmentation of the consumer durables industry



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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 kitchen appliances (microwave ovens, grinders etc) are also included in this category. This industry includes all those goods which are durable i. e. products whose life expectancy is at least 3 years. These products are hard goods that cannot be used up at once. According to recent industry reports, the steadily growing market for consumer durables is estimated at Rs. 300 billion.

### **Segmentation of the Consumer Durables Industry:**

The consumer durables industry can be broadly classified into 2 segments: Consumer Electronics and Consumer Appliances. Consumer Appliances can be further categorized into Brown Goods and White Goods. The key product lines under each segment are as follows:

### **What does the Past say:**

Titan, the market leader in watches and branded jewellery, has clocked the highest Net Sales CAGR of 34% over the last 6 years. It has the competitive advantage of a strong brand, which has helped it become the market leader. Using the right segmentation & smart branding strategies, Titan has successfully captured the watch and jewelry market. It has also managed to maintain a good Net Profit Margin of 6%

TTK Prestige, the market leader in pressure cookers and kitchen solutions, has registered the highest CAGR of 74% in Net Profit over a 6-year period.

## **PORTER's Analysis**

### **Growth Drivers for this Sector**

#### **1) Rise in Disposable Income:**

The demand for consumer durables has been rising with the increase in disposable income coupled with more and more consumers falling under the double income families. Also, the growing Indian middle-class plays a major role in increasing the demand. This, along with a fall in the prices of durable goods mainly due to the advancement of technology, easy import of components has led to an increase in the consumption expenditure on durable goods.

#### **2) Easy-availability of consumer financing:**

Apart from steady growth in income of consumers, consumer financing has become a major driver in the consumer durables industry. In the case of more expensive consumer goods, such as refrigerators, washing machines, color televisions and personal computers, retailers are marketing their goods more aggressively by providing easy financing options to the consumers by partnering with banks. The easy-availability of consumer financing is beneficial mainly for the lower and middle income group, especially when the cost of capital and flexibility of the scheme is in their favour.

#### **3) Existing Potential in Rural Markets:**

Growth is coming in a big way from the smaller towns and rural markets and is expected to be the next growth opportunity for the consumer durables market. In the last year ~30-35% of the total sales of consumer durables was from the rural market. This is expected to grow by 40-45% in the near

future. The rural durables market has been growing by ~30% annually, mainly due to the growing affordability of products as well as the general buoyancy in the economy. Products like mobile phones, televisions and music systems are the ones which have witnessed high growth among the rural market. To further cater to this market many manufacturers have started using local languages while offering products to the rural crowd.

#### **4) Increasing share of Organised Retail:**

Since the last couple of years there has been an increasing shift towards organized retail (brands) from the unorganized (unbranded) products. With rising income and purchasing power, and the younger generation preferring branded products, the share of organized shopping is increasing. Shopping in malls is considered more of an experience these days. According to estimates, organized retail which constituted ~4% of the total buying till 2010, is expected to grow to over 10% by 2013.

#### **5) Entertainment and Media to boost growth:**

According to a recent report by KPMG, the Indian Media & Entertainment (M&E) industry registered a growth of 11% over 2009 and touched Rs. 652 bn and is expected to achieve a 13% growth in 2011. Overall the industry is expected to register a CAGR of 14% to touch Rs. 1275 bn by 2015. Out of this, the television industry is expected to achieve a 16% CAGR and is expected to account for almost half of the Indian M&E industry revenues. The television segment of the consumer durables industry is seeing high growth coming from high-end flat panel TV, LCD TVs and Plasma TVs. All of these were expected to register a 100%+ growth in the last year. Hence, the

growing importance of entertainment and media on our lifestyles is expected to boost the demand for products like Plasma TVs , LCDs, DVD Players.

## **6) Consumer Preferences:**

Consumers purchase goods by looking at the brand, pricing, and discount schemes available at the time of buying. So, for the consumer durables industry following are important growth drivers:

Availability of new and innovative products – A company that upgrades its technology and comes out with new and innovative products catches the attention of consumers. Especially in the consumer electronics segment, manufacturers have to make sure they are updated with the latest technology that has entered the market. For the higher income groups the brand, technology and the product features play an important role

Pricing of the products – For the lower and middle income groups, price is the deciding factor especially in a price-sensitive industry like consumer durables.

Festive discount schemes – The sales of many consumer durables goods are driven by festive discounts. For example people consider it auspicious to purchase goods like LCDs, Televisions, Washing Machines, etc during festivals like Diwali, Gudi Padwa, etc.

## **Other Things to be concerned about:**

### **1) Cheap imports from Asian Countries :**

The cheap imports of consumer durable products from countries like China, Singapore etc is a major concern.

## **2) Increasing competition:**

Presence of a large number of players in each segment leads to high rivalry. Also, the unorganized market is yet very strong in the case of many consumer durable goods. The pie of the unorganized sector is relatively large in most of the segments, hence increasing the competition.

## **3) Fluctuating raw material prices:**

Rising input costs of raw materials viz. copper, steel, aluminium and plastic – the major raw materials required for this industry will severely put pressures on margins.

## **4) Unfavourable Duty Structure:**

Top players in the consumer durables industry have been demanding a more favourable import duty on durable components imported by them. Take the case of LCD's which is the fastest growing segment right now – the industry has been demanding a reduction in the import duty. Contrary to this is the case of set top boxes, where 80% of the set top boxes are imported. The industry has been recommending that the custom duty on STB should be increased by 5% to 10% in order to boost domestic manufacturing.

## **5) Continuously changing technology; a challenge:**

The consumer durables sector faces the challenge of a continuous change in technology and the inability to cope with it. High-end consumers prefer changing their goods along with the up-gradation of technology and manufacturers have to make sure they cater to this requirement.

## **OPPORTUNITIES AND CHALLENGES**

### **THE CHALLENGES**

Heavy taxation in the country is one of the challenges for the players. At its present structure the total tax incidence in India even now stands at around 25-30 per cent, whereas the corresponding tariffs in other Asian countries are between 7 and 17 percent. About 65 per cent of Indian population that lives in its villages still remains relevant for some consumer durables companies. This India, at least a large proportion of its constituents, still buys black and white TVs and doesn't know what flat screens are. Also, foraying into these rural markets has a considerable cost component attached to it. Companies not only have to set up the basic infrastructure in terms of office space, manpower, but also spend on transportation for moving inventory. Even LG and Samsung, which are touted as having the largest distribution network in the country, have a direct presence only in 15, 000 to 18, 000 of the around 40, 000 retail outlets (for consumer durables) in the country. Poor infrastructure is another reason that seems to have held back the industry. Regular power supply is imperative for any consumer electronics product. But that remains a major hiccup in India.

### **THE OPPORTUNITIES**

The rising rate of growth of GDP, rising purchasing power of people with higher propensity to consume with preference for sophisticated brands would provide constant impetus to growth of white goods industry segment.

Penetration of consumer durables would be deeper in rural India if banks and financial institutions come out with liberal incentive schemes for the white goods industry segment, growth in disposable income, improving lifestyles, <https://assignbuster.com/segmentation-of-the-consumer-durables-industry/>

power availability, low running cost, and rise in temperatures. While the consumer durables market is facing a slowdown due to saturation in the urban market, rural consumers should be provided with easily payable consumer finance schemes and basic services, after sales services to suit the infrastructure and the existing amenities like electricity, voltage etc.

Currently, rural consumers purchase their durables from the nearest towns, leading to increased expenses due to transportation. Purchase necessarily done only during the harvest, festive and wedding seasons - April to June and October to November in North India and October to February in the South, believed to be months 'good for buying', should be converted to routine regular feature from the seasonal character. Rural India that accounts for nearly 70% of the total number of households, has a 2% penetration in case of refrigerators and 0.5% for washing machines, offers plenty of scope and opportunities for the white goods industry. The urban consumer durable market for products including TV is growing annually by 7 to 10% whereas the rural market is zooming ahead at around 25% annually. According to survey made by industry, the rural market is growing faster than the urban India now. The urban market is a replacement and upgradation market now. The increasing popularity of easily available consumer loans and the expansion of hire purchase schemes will give a moral boost to the price-sensitive consumers. The attractive schemes of financial institutions and commercial banks are increasingly becoming suitable for the consumer. Consumer goods companies are themselves coming out with attractive financing schemes to consumers through their extensive dealer network. This has a direct bearing on future demand.



## **Future Outlook for this Sector**

The Indian market is fast moving towards high-end products and the importance of media and entertainment is growing among the young market. The consumer durables industry needs to constantly focus on innovation and needs to come out with product variations across categories to meet the different expectations of a varied class of customers.

With easy availability of finance, fall in prices due to increased competition, growth of media, 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.

**With the Indian Economy expected to grow at ~7 – 8%, the existing potential in the durables market augurs well for the consumer durables industry. Hence, we can say that the consumer durables sector is expected to grow with a good growth rate and have a bright future.**

It is very important that while investing in a company, an investor selects a sector, where the long-term future prospects are bright. We have seen that in the long run the consumer durables sector is expected to have good growth. Also, it is equally important that the company has an excellent financial track record( i. e. Green 10 Year X-Ray) and its long-term future prospects are Green (Very Good).

\*The 10 YEAR X-RAY facilitates analysis of the financial performance of the company considering the five most important parameters. A 10 Year period will normally encompass an entire business cycle. Analysing the performance over this time frame is essential to understand how a company has fared

during the good as well as bad times. The five most important parameters that one needs to look at are Net Sales Growth Rate, EPS Growth Rate, Book Value Per Share (BVPS) Growth Rate, Return on Invested Capital (ROIC) and Debt to Net Profit Ratio.