CHAPTER 2

THE INDIAN ECONOMY AND THE INDUSTRY

THE ELECTRONICS, THE AUTOMOBILES, THE AIRLINES

AND THE FINANCIAL SERVICES

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2.1 The Backdrop.

The previous chapter examined factor diverse issues related to market forces, factors contributing to change and the dynamics related to market place. It also takes a brief view of the reference to and origin of marketing strategy, its three-phased evolution and the frame of reference adopted for the present study.

The present chapter examines briefly some performance indicators of the Indian Economy and a few select Industrial Sectors as these influence and impinge upon the ground realities including the marketing strategies followed in marketing new products.

Since the new products under consideration are company deposits, car finance, airlines, black-&-white television, colour television, music system and washing machines, the rationale for which has already been discussed earlier, only indicators related to these new product categories are examined briefly in the present chapter from among the several sectors that could possibly have been discussed.

The very nature of new product categories therefore viz. the two financial services (company deposits, car finance), airlines and consumer durables (television, music system and washing machine) is the determining factor in the choice of discussion of these indicators. Also these are relevant to and also keeps the focus of discussion on the select sectors relevant to the present study, rather than all the sectors. Besides these have implications for marketing strategies that are followed.

It is against the backdrop of these indicators that marketing strategies followed for the new product categories are examined. Marketing strategies are not followed in isolation. They are followed within the dynamics of market forces. These strategies are followed as a continuum, constantly pro-acting, reacting, contributing and/or responding to these indicators. They are followed within the dynamics of these indicators. These indicators therefore assume significance for the marketing strategies followed. It is precisely against the backdrop of these indicators that marketing strategies are followed. And it is these marketing strategies followed by marketing managers that have been examined in the study later and therefore these indicators assume an even greater significance for the strategies followed and hence have been examined here.

The present chapter thus examines briefly the overall scenario of the industrial sector, select industry indicators especially with reference to the electronics industry, the automobiles industry the airlines industry and the financial services industry as these form a part of discussion of the present study.

2.2 The Industrial Sector

The Indian economy has been a witness to several changes since the economic reforms in June 1991. With the welcoming of private initiative and the restrictions over quota system removed the pace of change is set for the Indian Economy's take-off with the enforcement of deregulation and liberalization. Some of the economic indicators reiterate this and is evident in foreign exchange reserves at US $ 19 billion, exports growth at 20 percent a year (in US dollars) from 1993-94 to 1995-96, average GDP growth over post-reforms period at 5.5 percent and inflation at 6.5 percent[1]. A slight setback however was evident in the first six months of 1996-97 during which industrial growth had slowed down to 8 percent as against the 12.5 percent in 1995-96 while the exports growth had dropped to around 10 percent[2].

Among the various sectors of the Indian economy that are affected in different ways due to the reforms process, the Indian Industrial Sector has been no exception and happens to be one of the keenly watched sectors. The joint ventures, mergers, takeovers, acquisitions including the debate over Swadeshi versus Videshi with respect to opening up the economy to foreign capital and the keen interest shown in the Indian market as also the investors eyes (both domestic and foreign) set on India is indicative of manufacturers and investors interest in the Indian Industrial Sector. In fact a major factor responsible for the recent growth performance of India is said to be the industry[3]. As compared to the 6 percent in 1993-94 and 9.4 percent in 1994-95 the overall industrial production grew by 12.1 percent in 1995-96[4]. Among the several features of industrial recovery and growth has been the phenomenal expansion of the consumer durables sector which grew by 38.5 percent in 1995-96[5] indicative of the acquisition of durable assets by consumers, the purchasing power of the people and the economic prosperity of the Nation. Certain class of consumer goods especially the **"White Goods" are said to have contributed to this remarkable growth[6]**, with the weight of the consumer durable goods sector in total industrial production at a mere 2.6 as against the much higher weight of 21.6 for the consumer non-durables sector and 23.60 for consumer products. In terms of percentage change over previous year the pattern of industrial growth varied from - 1.80 (1991-92), 1.90 (1992-93), 4.00 (1993-94), 8.70 (1994-95) to 12.90 for the year 1995-96 for consumer products. For consumer durables it was observed to be - 12.50 (1991-92), -0.70 (1992-93), 16.10 (1993-94), 10.20 (1994-95) and 38.50 for the year 1995-96 **while for consumer non-**

durables for the same duration the percentage change was 1.20, 2.50, 1.30, 8.30, 6.60.[7] Against this backdrop of economic performance the market is witnessing additions to the number of players in the market-both domestic and foreign-adding to the products existing in the market indicative of the numerous new products **available to consumers.** The development report further points out that owing to whatever reasons be it scarcity of human resources, office space, distribution network, lack of local market knowledge, joint ventures or subsidiaries such as Godrej-GE, DCM Daewoo, Cadbury Schweppes, Gillette and others are not hard to find in the Indian market. Infact the report cites instances of sucessful players both national and international in the Indian market such as the entry of Hyundai, the American cosmetic giant Avon, Timex with its plant to set up a fully-owned subsidiary to serve as a manufacturing base only for its global operations. Cadbury Schweppes Beverages India Pvt. Ltd. a 100% subsidiary specially to launch the Schweppes soft-drink range in India, Gillette which markets most of its new products through a fully owned subsidiary despite its existing Indian public shareholding company, including the tough competition posed by domestic players such Nirma V/S Hindustan Lever, Asian Paints V/S ICI, Bajaj V/S Honda and Piaggio, Telco's strong hold on the Indian Market with its sturdy, rugged vehicles backed by superior sales services, T.I. Cycles which has captured a 2% share of the world bicycle market through its economies of scale, Tisco the lowest cost producers of hot rolled coils and so on.[8]

The authors further cite two successful examples with reference to Indian consumer durables market. **One**, regarded as the peoples Car at Rs. 2.10 lakh commanding 77 percent of the Indian car Market, probably the cheapest car in the world and accounting for 65% of all car sales in India, the Maruti 800 is giving tough time to its International competitors Toyota, Mitsubishi, Fiat and Renault in the low end segment of the Indian Car market. However, with 21 new small cars in the design stage for the Indian market, how long Maruti will hold out to this competition remains to be seen. **Two**, a Rs. 3,000 crore color television industry with international players such as Sony, Panasonic, Akai, Thomson, Grundig, LG Electronics, Samsung etc. and technical collaborations such as Videocon - Toshiba, BPL - Sanyo, Onida - JVC etc. and with Akai, Panasonic, Samsung and Sony's combined market share for April-June 1996 at 11.5 percent, the market for colour television is expected to grow in the future. But how easy or difficult the penetration into the Indian market for these players will be, remains to be seen.

The implication of the afore discussion then is that competition remains the name of the game be it a national or an international player. It is necessary to examine some of these successful stories as they are indicative of the complexities and dynamics involved in the market, the size and magnitude of the market and have implications for marketing these products, the marketing practices followed, the investments made for developing brand images, the segments served, the positions taken and the strategies followed.

These strategies follow from the nature of the product, the target audience being served, the segment being served, the type of product, etc. It becomes imperative therefore to examine these aspects as they have implications for the marketing strategies followed. Different strategies for instance have been recommended for each of the stages of the product life cycle[9 to 13]. These indicators are also significant from the viewpoint that they reflect the rate and pace of change taking place in the market and have implications for all decision-making levels including marketing of new products.

The Centre for Monitoring Indian Economy's (CMIE) Industrial Sector Report (1996) reiterates the weight of consumer goods at 23.65 percent, the weight of consumer durables at 2.55 percent and consumer non-durables at 21.10 percent with 1980-81 as the base year with a percentage change over previous year being 8.42, 9.77 and 8.20 respectively for the year 1994-95[14].

2.3 The Electronics Industry

Among the several industries covered by the CMIE, for the 52 companies surveyed in the electronics industry the sales are observed to be Rs. 3692.53 crores with Profit Before Depreciation, Interest and Taxes (PBDIT) at Rs. 627.12 crores and Rs. 147.32 crores of Profit After Taxes. For the year 1994-95 the sales of 16 companies covered in the consumer electronics industry has been Rs. 5125.24 crores with PBDIT at Rs. 624.19 crores and profit after tax at Rs. 315.98 crores with a debt-equity ratio of 0.89 and current ration of 2.13.[15]

Even with apparently low indices observed for consumer goods, consumer durables and non-durables, the electronics industry in India spread over small scale and large units in both private and public sectors, is fairly large with over 3,500 manufacturing units in electronics. Of which 3,000 are small scale units, 76 public sector units and over 500 medium and large private sector organisations, and the top 350 units accounting for nearly 70% of the output.[16]

The 35 years old Indian electronics industry seems to have come a long way from a production worth Rs. 12 crore in 1960 to Rs. 180 crore in 1971, Rs. 9200 crore in 1990 and Rs. 17,500 crore during 1995. The Indian electronics industry saw some of its best performance during the eighties when it underwent significant structural changes and the consumer electronics segment saw a rise in its share in the total industry with the advent of colour television. Infact the eighties saw the production of electronics industry grow at a pace of 30 percent per annum and the consumer electronics segment grew by 32 percent per annum during this decade, while the production of audio and video equipment grew by 28 percent per annum[17].

Consumer electronics forms about one-third of the total electronics production in the country. With a volume of 1.33 million sets the share of colour TV's in the television production is 60% at Rs. 1,404 crores whereas with a volume of 5.2 million sets the production of black and white TV's is worth Rs. 920 crores. In 1994-95 the Rs. 2.600 crore television Market found dominant players in Videocon International, BPL and MIRC electronics with the three companies having a share of 56 percent of the total market. The share of BPL doubled from 11.3 percent in 1990-91 to 22.4 percent in 1994-95 with Solidaire loosing almost 3 percent points. Among the major players for Washing Machines in the year 1994-95 Videocon Appliances emerged the leading player with a market share of 54.5 percent, sales worth Rs. 332.68 crore and a production of 478980 units followed by BPL Sanyo Utilities & Appliances with a market share of 24.6 percent, sales of Rs. 150.46 crore and production of 206726 units.[18] Table 2.1,2.2 .

2.4 The Automobiles Industry

Another sub-set of Indian Economy and a sector of Indian Industry that envisages keen interest is the Indian Automobile Industry. With a recent origin, because until 1945 largely vehicles - mainly cars - were imported until after Independence imports were banned and domestic production was encouraged, India though the largest producer of tractors and three-wheelers in the world, and second in the production of two-wheelers still lags behind global standards in case of passenger cars. The passenger car market was dominated by the two players Premier Automobiles (PAL) and Hindustan Motors (HM) until the entry of Maruti in 1984 which gave the much needed momentum to this market. This is evident from the production of 0.36 lakh and 0.47 lakh units between 1970-71 and 1983-84 to a rise in production by 62 percent during 1984-85, the year Maruti had entered the Indian market. This encouraging trend continued during the eighties with production of cars growing at a compounded annual growth rate of 15 percent. In July 1991 however the passenger car industry was faced with recession which lasted for about two years during which the production of cars declined in 1991-92 by 8.5 percent and in the subsequent year by a further 1.8 percent resulting in a sharp fall in the passenger car industry's net profits by 50 percent in 1991-92, a trend that continued to persist in 1992-93 also. This paved the way for some of the major relaxations that were announced in the 1993-94 Union Budget such as the reduction in the excise duty on passenger cars to 40 percent from the earlier 55 percent and the reduction in the customs duty on components, which helped revive the demand and set the car industry on path to recovery beginning from 1993-94, the year during which passenger car profitability (PBDIT) rose to 10.23 percent as against 6.97 percent in 1992-93 and continued in 1994-95 during which sales grew by 34 percent and net profits shot up by 195 percent. During the year 1994-95 for the four companies covered by the CMIE, sales were to the tune of Rs. 7708.60 crore, PBDIT Rs. 1022.37 crore, profit after tax Rs. 410.13 crore with a net worth of Rs. 1632.71 crore, a debt-equity ratio of 0.85 and current ration of 1.27.[19]

To state briefly, in 1990-91 Maruti enjoyed a market share of 61.5 percent and a 70.1 percent during 1994-95. Telco's entry into passenger car's around December with Tata Sierra being the first indigenously produced car by Telco, enjoyed a market share of 10.3 percent during 1994-95. Telco's entry and Maruti's growing market share hit PAL and Hindustan Motor's market shares which were at 11 percent for the latter (HM) and 8.5 percent for the former (PAL) during 1994-95.[20] Tables 2.3, 2.4 .

The opening discussion of this chapter has reference to some of the changes taking place in India in the wake of measures undertaken for economic reforms. The automobile industry too has been a witness to the delicensing of the manufacture of passenger cars. February 1993 is regarded as an important milestone in this direction. The resultant joint ventures between Indian manufacturers and foreign companies has paved the way for foreign cars on Indian roads. This not only adds to the competition among cars but offers wider choices to consumers and adds to the challenge of marketing these cars. This gets further accentuated in the seven passenger car projects with a total investment of Rs. 3,773 crore under implementation as on 31 December 1995 and the Rs. 1,500 crore project of DCM Daewoo Motors manufacturing 70,000 premium cars with none other than the brand Ceilo, and four projects worth Rs. 6,900 crore with capacities of 3.6 lakh cars per annum[21]. This reflects the avenues and opportunities thrown open by the market conditions. One such aspect is the diversification of manufacturing and other firms such as the Tata's , Lloyd's, Kotak's, Apple's, Kinetic and others into Lease and Financing of Cars, Trucks, Two-Wheelers etc. and Company Deposits of the Non-Banking Financial Institutions (NBFI'S) vis-a-vis the FD's of the Banking Institutions. Company Deposits and Car Finance by these Non-Banking Institutions forms a part of the present study. Similarly consumer durables namely Colour TV's, Black-and-White TV's, Music Systems and Washing Machines discussed earlier in this chapter also are a part of examination in this study.

2.5 The Airlines Industry

Communication, transportation including Aviation forms an integral part of economic development. No development is complete without an efficient communication system. Whether it is an economy, industry, organisation or a new product, communication is crucial for its growth and development. Similarly, in view of the fast changes taking place in the market an area that gains significance after communication is transportation. Aviation as a part of this area also assumes significance with the increased need for travel by the decision-makers in view of the disappearing global boundaries. The increase in the number of licenses granted to private operators is an indicator of this. This is also evident from the number of players in the market both domestic and foreign such as British Airways, Air France, Air India, Indian Airlines, Gujarat Airways, Cathay Pacific, East West Airlines, Air Canada, Air Seychelles etc. Some of the highlights of this sector are discussed in the subsequent paragraphs. However, suffice it to quote the General Manager, South Asia, Delta Airlines, Bill H. Myers[22] here, "The airlines industry will be an integral part of the development of India in the coming decade".

With the exception of chartered flights the operations of domestic air transport was the domain of public sector until the early nineties. The domestic traffic grew sharply with the opening up of the skies in 1992-93. Established in 1953, Air India became a public limited company from 1 March 1994 with a strength of 26 aircrafts covering 42 destinations. The rate of growth of revenue passengers carried by Air India was 14.8 percent and 11.3 percent per annum in the sixties and the seventies respectively with a slight dip between 1980-81 and 1993-94 during which the passenger traffic growth rate was a mere 2.5 percent per annum. However this situation is expected to improve Air India's investment of Rs. 20,000 crore for its aircraft fleet expansion and the net addition of 50 aircrafts by the year 2002 AD[23]. Also established in 1953 to provide mainly domestic air transport services, Indian Airlines-primarily a passenger oriented airlines operating in 53 domestic stations and 14 International stations covers 11 Countries. It has in its fleet the credit of having 63 aircrafts. Declared a public limited company as of 1 March 1994, the rate of growth in passenger traffic was 10.6 percent and 9.6 percent per year in the sixties and the seventies respectively with the rate of the stated growth being mere 2.2 percent per year during 1980-81 to 1993-94[24]. Both these airlines enjoyed a monopoly in the domestic skies from 1953 - the year of its inception to 1992 - the year when the skies were opened to private operators.

This situation changed in 1993 around which time Indian Airlines was confronted with a difficult situation of sharing the market of its profitable trunk routes with the Air Taxi Operators (ATO) which also resulted in the loss of formers skilled personnel to the latter including the gain in passenger traffic by the ATO's. In 1992 for instance the Air Taxi operators carried only 4 lakh passengers whereas they carried five times this number i.e. 21 lakh passenger in 1992 and nine times this number i.e. 36 lakh passengers in 1994[25].

Among the private players in the Indian skies, East West Airlines - the largest private airline in the country, owned by East-West Travel and Trade Links Limited, East-West declared a net profit of Rs. 5.17 crore in 1993-94 with an expected gross profit of Rs. 20 crore on a Rs. 345 crore turnover for the year 1994-95. Modiluft declared a Rs. 10.55 crore profit against Rs. 100 crore gross sales and a turnover of Rs. 200 crore as of May 1995. The then Damania in its first year of operations reported a turnover of Rs. 93 crore. Initially operating on 32 destinations, the NEPC covering 9 more destinations expanded its network to take the total to 41 centres[26] and the strategic alliance between NEPC and Damania charted new routes on the Indian skies. The connections both from Bombay and Delhi to destination Banglore is one such example of both the commercial traffic as well as the keen attention it invited by the private airlines. Jet Airways for instance operates two flights a day on the Bombay-Banglore sector with a load factor of 75%. The other examples of private operators include the lucknow-based UP Air operating between Lucknow and Kullu via Delhi, the Hyderabad-based VIF Airways concentrating on Andhra Pradesh, Mesco Airlines concentrating on West Bengal and Orissa, KCV Airways covering Himachal Pradesh, Punjab and Rajasthan, Gujarat Airways covering the Bombay-Vadodara Sector, and lastly, Indo-Canadian and Raymonds Industries received clearance to start service[27]. This is further reiterated by the fleet strength of private airline operators. East-West Airlines for instance has a fleet strength of 10, the then Damania airways, fleet strength was 4, Modiluft 3, NECP 5, Archana Airways 3, Jet Airways 6, Sahara Airlines 3, India International 3 and Jagson Airlines 3.[28] This has implications for the kind of services provided by these private operators, the timing of departure, the rates, destinations covered and the wider choice available to the consumers and therefore the promotools, the commissions, the schemes and marketing strategies deployed by these players in the market.

Ultimately it is the consumer who stands to gain out of these wider choices, better products, options to choose from and the company and the marketer is left to understand better the consumer needs, .be sensitive to these needs, identify the emerging target audiences and segments and the closer the company gets to understanding the consumer needs and the variety of uses or applications of the products for the consumer the better for the company in serving its consumers.

2.6 Financial Services

Lastly a look at the financial services, a sector of recent origin evident from the number of car, truck, two-wheeler and home appliance financing companies that have mushroomed of late. Once regarded a taboo in developing countries, buying a consumer durable either a car, two-wheeler or any home appliance product financed by any Lease and Finance Company today is no longer so. Similarly opportunities are evident in Company Deposits in these Lease and Finance Companies by the investor as a substitute to Bank Fixed Deposits. Some of the financial highlights indicate the significance of this emerging area. In a survey covering over 7000 companies by the CMIE among which also were financial services companies, the Sales/income for the financial services for the year 1990 was Rs. 125.90 crores, Rs. 10768 crore for the year 1993, Rs. 50043 crores for the year 1995 and Rs. 72232.30 crores in 1996. This corresponds to 15 percent, 26.5 percent, 24.6 percent and 24.3 percent for the respective years. The profit before tax (PBT) for these years was Rs. 11.1 crore, Rs. 2088 crore, Rs. 7088.1 crore and Rs. 8977.6 crore. The profit after tax (PAT) was Rs. 11.0 crore, Rs. 1667.7 crore, Rs. 6396.80 crore and Rs. 7835.70 crore respectively. This corresponded to a growth in gross savings of 72.6 percent, 19.5 percent, 136.80 percent and 16.8 percent respectively[29] indicating the mood and trend in the market during 1995 and 1996 and the opportunities provided by this sector indicative of the market potential until the temporary set back caused by the resource crunch.

These performance figures though not exhaustive, at best comprehensive, serve as a backdrop and provides a birds eye view of the complex, dynamic and volatile market that the Indian economy is and continues to attract the multinationals as a potential market against and within which the players have to compete in serving the markets. This is its turn has implications at the policy level and for the decision-makers including marketing managers in marketing their new products - the seven new product categories in this case.

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