

# **Competition issues in Consumer Electronics and Durable Industry**

**by Suresh Khanna,  
Secretary General**

**CETMA**

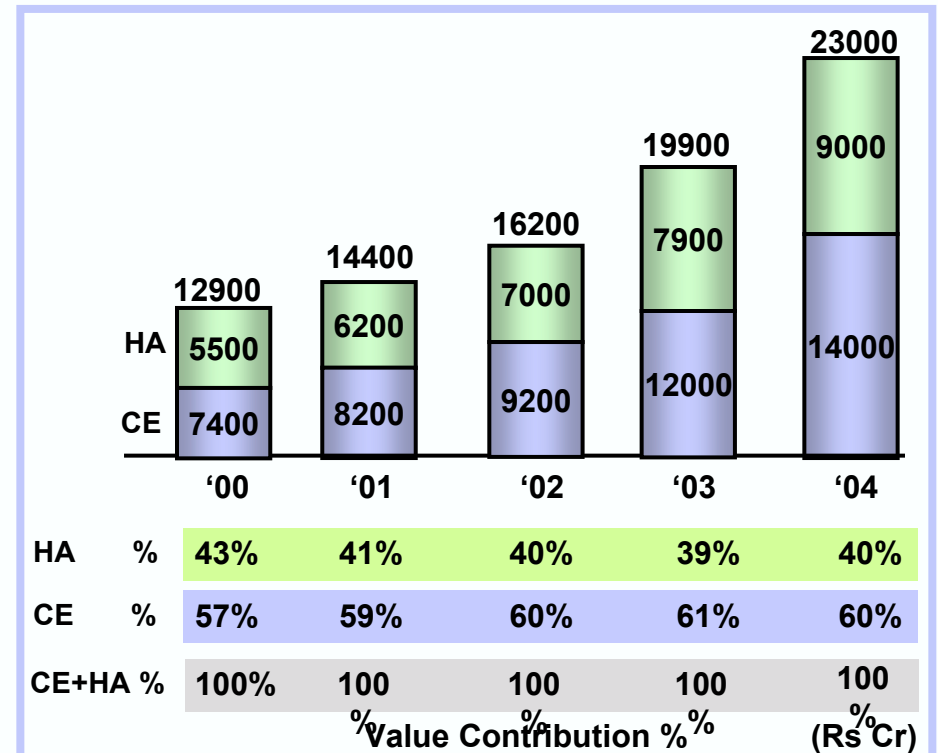
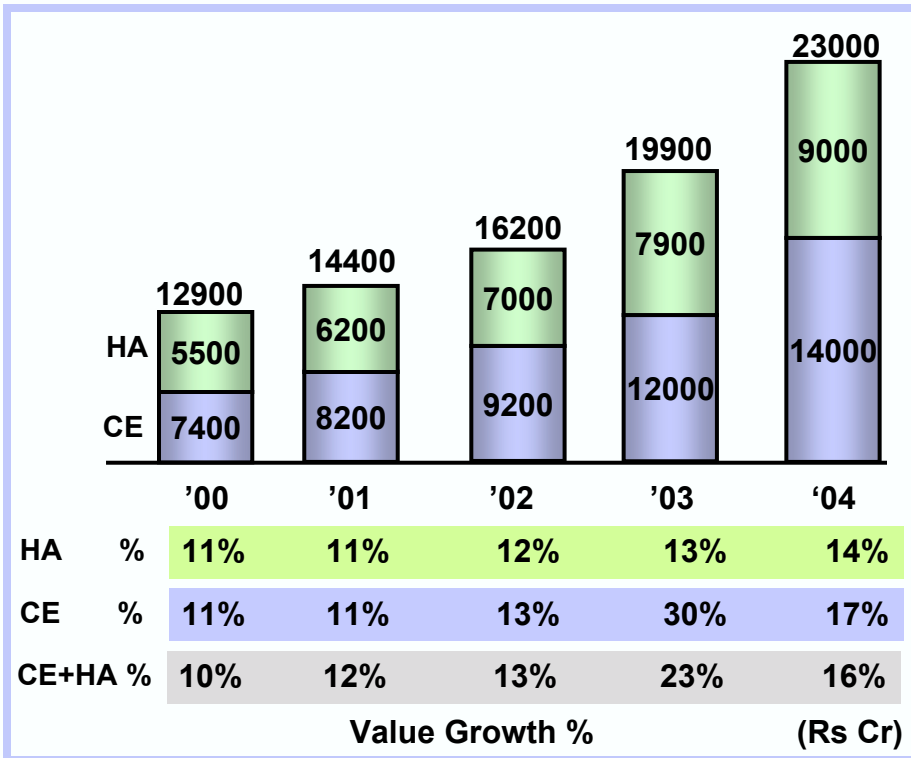
## **Consumer Durable Sector**

**It Contributes more than 5.5% to index of Industrial Production and provides jobs to lakhs of professionals, Skilled, Semi Skilled and unskilled workers, particularly women. It improves the quality of life of people by providing Entertainment / information / education / comfort and helps reduce daily chores, particularly for housewives.**

**But the importance of the sector in National Economy remains unnoticed. Governments both at Centre and States view this sector only as source of Revenue generation.**

# Growth of Consumer Electronics

<b>1950s</b>	<b>Radios</b>
<b>Late 1960s</b>	<b>B&amp;W TV Transmission</b>
<b>1982</b>	<b>Colour TV Transmission</b>
<b>1992</b>	<b>Liberalization Process initiated</b>
<b>1993-94</b>	<b>Dismantling of controls such as licences, use of foreign Brand Names etc.</b>
<b>1994-95</b>	<b>Entry of MNCs – Panasonic, Sony, LG, Samsung etc.</b> <b>Lowering of Import duties.</b> <b>Cable TV Started</b>
<b>1995- Till Date</b>	<b>Entry of Many MNCs &amp; Rapid Growth</b>
<b>2001</b>	<b>Non Tariff Barriers on Imports removed.</b>
<b>2004</b>	<b>Free Trade Agreement with Thailand implemented, resulting in reduction of import duties on Colour Television sets, Colour Picture Tubes, Refrigerators and Air Conditioners, thus more competition.</b>

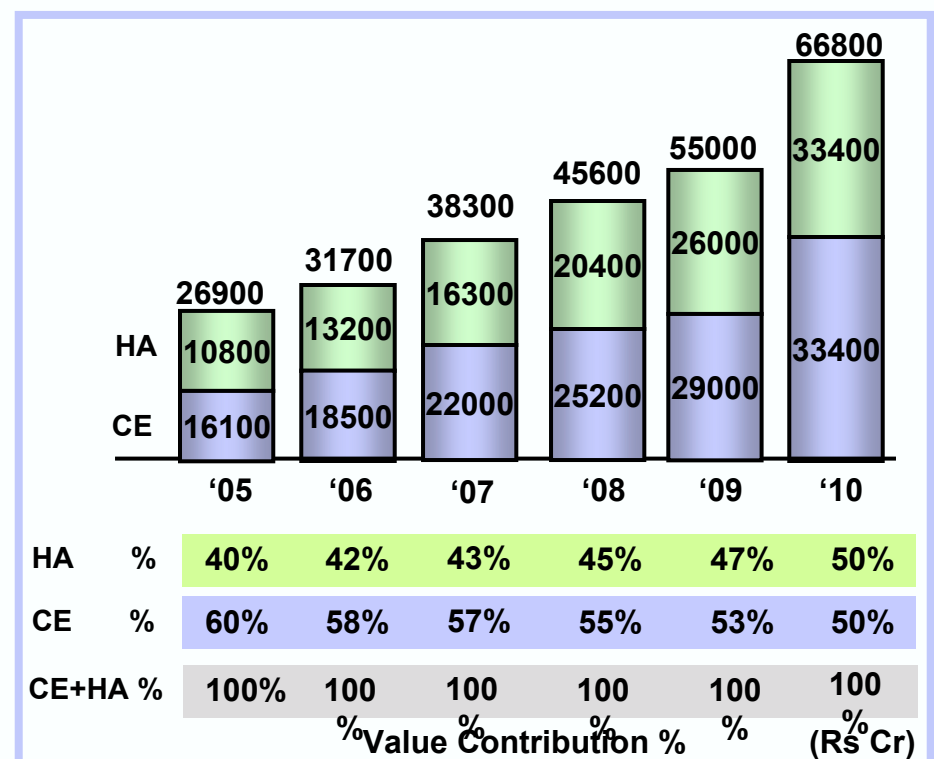
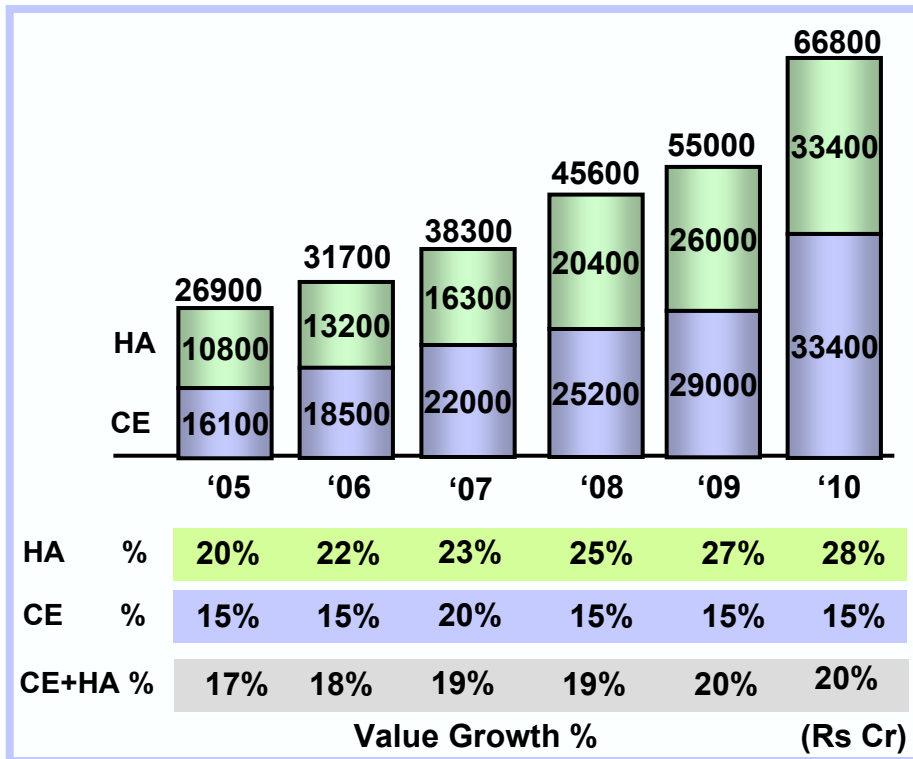


- Steady growth of CE at 13-15% ('03-23%)
- HA falling behind CE on account of growth
- HA yet to hit point of Inflexion of growth
- Steady growth of CE+HA - yet low penetration

- High investment in HA - Lack of buoyancy
- Little or No fresh investment in HA
- Fewer players in HA as against CE
- Rising input cost - slower growth- negligible profit
- Stress on MOP& already low retention in DC/SA

# Unleashing of Durable Industry

# Durable Industry



- CE+HA growth expected at 15-20% next 5 yrs
- HA to grow faster than CE
- Replacement of RAC/WM/Ref to fuel growth

- HA to level up CE in contribution by 2010
- More global players to emerge in HA
- Reversal in price erosion of HA(Value growth)

# Brands in Consumer Electronics Sector

<b>MNCs</b>		<b>National</b>	<b>Regional</b>
<b>LG</b>	)	<b>Onida</b>	<b>Oscar</b>
<b>Samsung</b>	) <b>Korea</b>	<b>Videocon</b>	<b>Beltek</b>
<b>Hyundai</b>	)	<b>BPL</b>	<b>Salora</b>
			<b>Weston</b>
<b>TCL</b>	)		<b>T-Series</b>
<b>Haier</b>	) <b>China</b>		<b>Bush</b>
<b>Konka</b>	)		<b>Crown</b>
			<b>Jolly</b>
<b>Philips</b>	) <b>Holland</b>		<b>Texla</b>
			<b>and Others</b>
<b>Panasonic</b>	)		
<b>Sharp</b>	)		
<b>Sony</b>	)		
<b>Hitachi</b>	) <b>Japan</b>		
<b>Sansui</b>	)		
<b>Akai</b>	)		
<b>Aiwa</b>	)		

# **Brands in Home Appliance Sector**

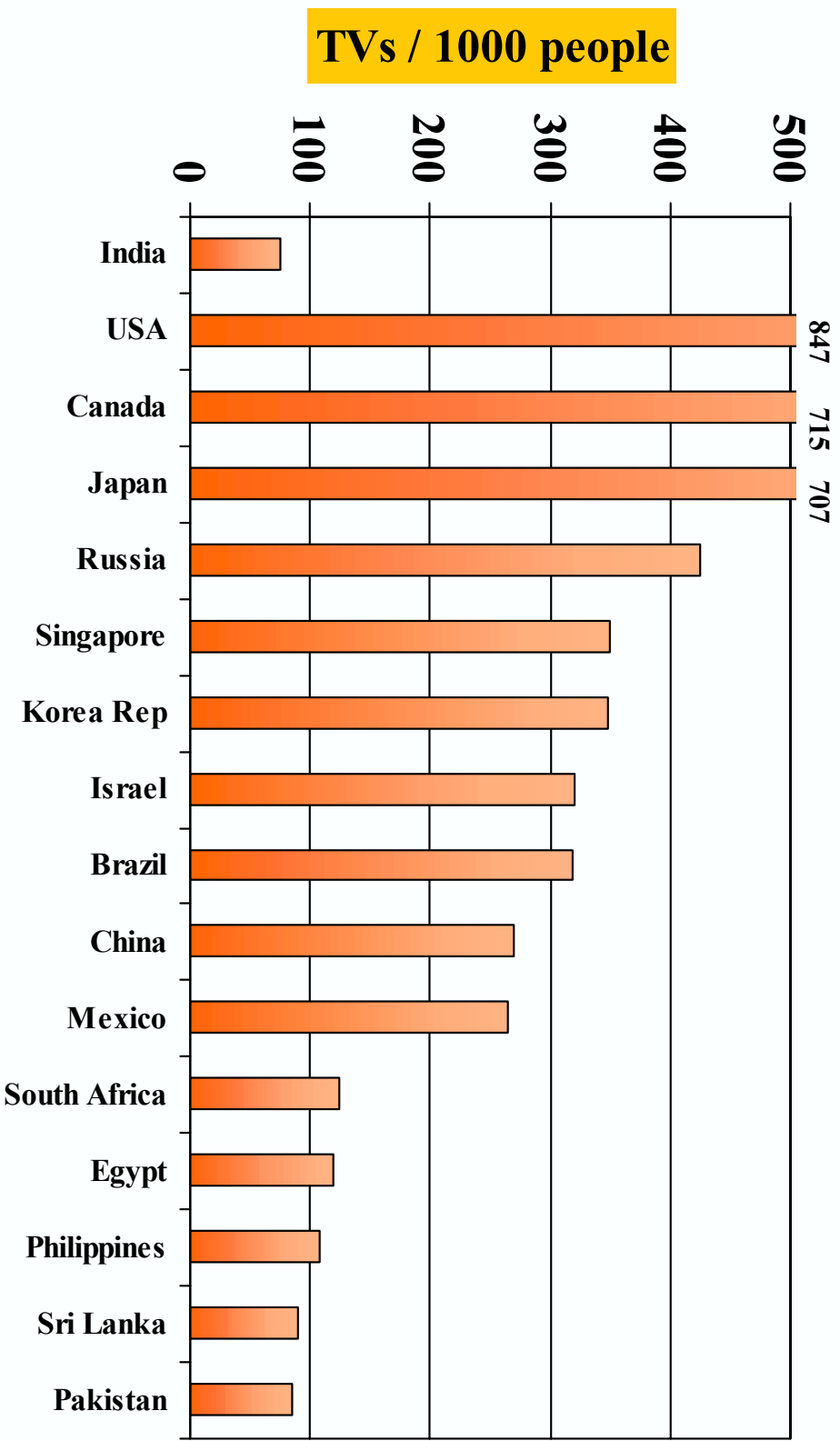
## **MNCs**

**LG**  
**Samsung**  
**Haier**  
**Whirlpool**  
**Electrolux**  
**Carrier**  
**Panasonic**  
**Daewoo**

## **National**

**Siemens**  
**Fedders Lloyd**  
**Voltas**  
**Godrej**  
**Onida**  
**BPL**  
**IFB**

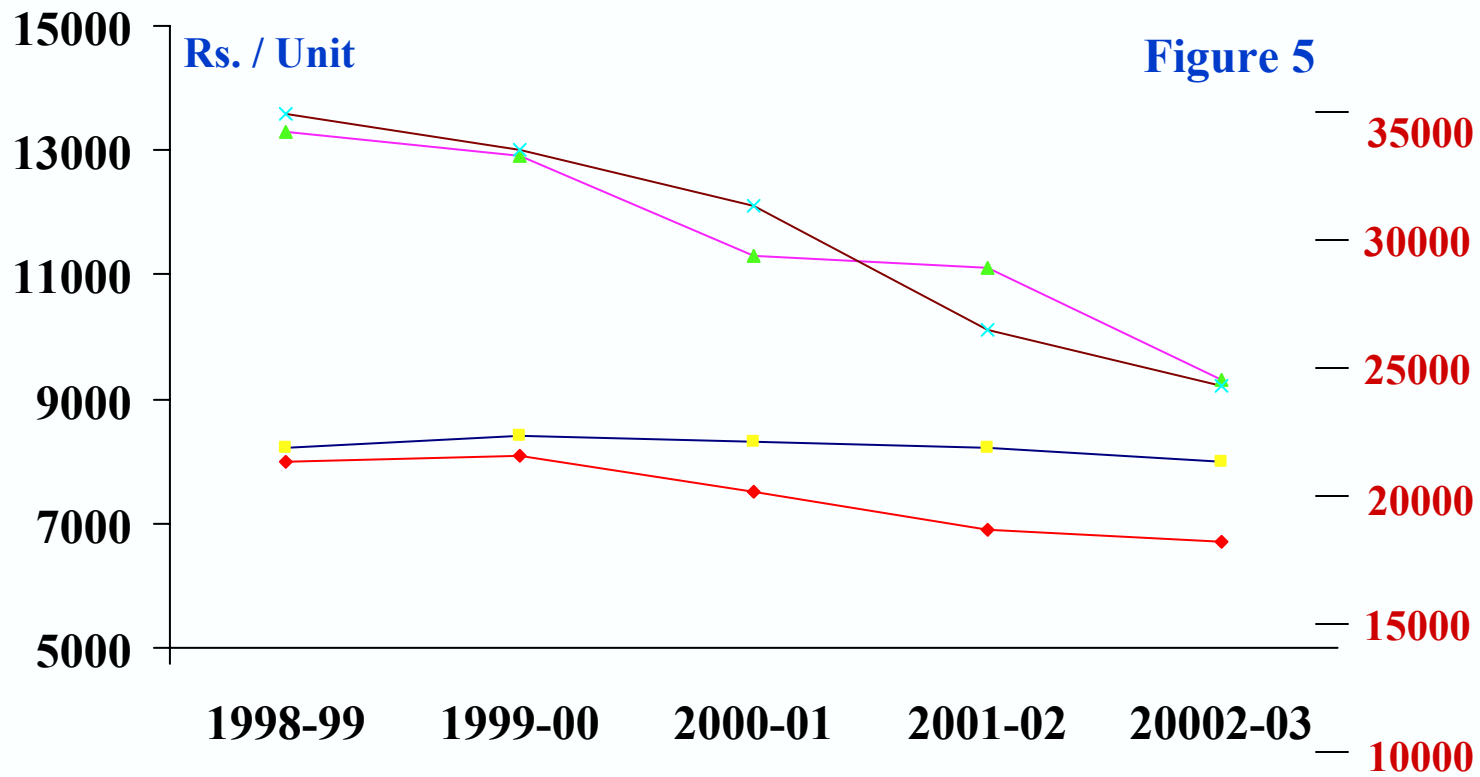
# TV Penetration Rates in Select Countries



Source : Statistical outline of India



## Price of most durables have been on a downtrend in recent years



# Heavily Taxed

**Tax on CE and Durable products varies from 30% to over 40%.**

**Tax elements are**

**Customs Duties on**

**Picture Tube of CTV**

**(Main Component)**

- **20%**  
**(Highest)**

**Excise Duty**

- **16%**

**For Air Conditioner**

- **24%**

**Sales Tax**

- **12% - 17%**

**Octeroi**

- **4%**

**TOT / Sales Tax Surcharge**

- **1%**

## COMPARISON OF TAXES AND COSTS

	INDIA	THAILAND
<b>Customs Duty</b>		
Raw Material	0-20%	0%
Components	0-10%	0-5%
Colour Glass Parts	20	0
Colour Picture Tube	20	0
Tuners, Cabinet, Antenna etc.	20	0
ACs., Refrigerators, Compressor	20%	30% (5% from ASEAN)
<b>Excise Duty</b>		
Electronics	16	Composite VAT of 7%
<b>Sales Tax / VAT</b>		
CST	4%	Composite VAT of 7%
LST (State)	12-17%	"
Purchase Tax	2-4%	"
<b>Other Costs</b>		
Rate of Interest	12%	4-5%
Diesel (INR)	22	16
Petrol (INR)	34	19
Electricity (INR)	5 per unit	2.5 per unit
Infrastructure	Weak	Good
Labour Cost (INR) (per month)	3500	6000
<b>Thailand has a composite VAT right from manufacturing stage, which is adjusted at each stage with no cascading effect.</b>		
<b>This is significant in view of FTA with Thailand</b>		

# Grey Market

**High level of Taxation has resulted in thriving grey market. Share of grey market in some of the products are**

<b>B&amp;W TV sets</b>	<b>&gt;</b>	<b>50%</b>
<b>VCD Players</b>	<b>-</b>	<b>80%</b>
<b>Car Stereo</b>	<b>-</b>	<b>80%</b>
<b>Radios</b>	<b>-</b>	<b>75%</b>
<b>2-in-1s</b>	<b>-</b>	<b>50%</b>

**Reduction in Excise Duty from 40% to 24% has reduced the share of grey market from 60% to less than 20%.**

# M RTP Case

## Cartel Formation by B&W Picture Tube Manufacturers

B&W TV industry was registering rapid growth, many companies invested in manufacture of main component Picture Tube. Seeing the growth, Governments both at Centre and State Started levying more and more taxes on TV sets. The industry went into negative growth from 1988 to 1992. Thus over capacity was created in B&W Picture Tube industry. Many units closed down. Only due to over capacity prices of Picture Tubes crashed. Only four major players were left in 1992. They formed a cartel to control price. They raised price, together of picture tube, more than once.

## CETMA filed MRTP case

Case went on for a couple of years. Agreement was reached and we withdrew the case.

Yet again in 1998, Cartel formation was there and CETMA filed a case in MRTP in 1999.

But then legal procedure is so awfully slow that there was little progress. The B&W TV industry in this period went into high negative growth. Very few players were left, Industry lost interest in case and it was withdrawn.

## **Case in MRTTP**

**There was one instance when a Refrigerator manufacturer filed a case against competitor on grounds that capacity of refrigerator indicated by competitor in advertisement, was more than actual capacity of a model. The same was given wide publicity in newspaper.**

### **Result**

**It had negative impact on industry, as a doubt was raised in the minds of potential customers.**

# **PROBLEM AREAS**

## **Attributable to Industry**

- 1. Inadequate stress on R&D**
- 2. Quality - Yet an issue**
- 3. After Sale Service & Customer Satisfaction**
- 4. Fragmentation of Capacity - not able to achieve economies of scale**

## **Government**

- 1. Sector viewed as catering to elite and hence taxed very heavily**
- 2. Tax System- deadly combination of inefficiency & Corruption**
- 3. Highly bureaucratic approach increases Transaction costs.**
- 4. Little understanding of problems of Industry.**
- 5. Vested Interests influence Policy decision.**

# Action Points for Industry for Growth

- Commit sufficient resources for R&D
- Need to be more quality conscious
- Need to improve After Sales Services
- Need to Build economies of Scale
- Explore exports as a viable option.
- More emphasis to develop Rural Market.



# Action Points for the Government

- **Implement Value Added Tax without further loss of time**
- **Correct anomalies in Customs Tariff. Reduce Customs duty on inputs to the industry such as copper, plastic, lead, aluminium, CPT etc.**
- **Make Tax system simple and transparent to reduce corruption and Improve efficiency of tax administration, leading to increased velocity of business**
- **Withdraw all tax exemption; it will improve revenue of both centre and state governments.**
- **Lower total indirect tax incidence from the present level exceeding 30 per cent to less than 20 per cent. It will result in increased revenue for both centre and state governments, as witnessed in the case of reduced income tax.**
- **Reforms, particularly in the power sector, need to be speeded up. Rural electrification should be a high priority task.**
- **Rural roads should also be a high priority task.**

# COMPETITION

**Before liberalization, there was little competition. Whatever was made was sold. It was sellers' market.**

**After liberalization, real competition started. Today the sector faces very severe competition. The market has not grown at a rate anticipated, particularly in Home Appliances. There are spare capacities. Many companies are running into loss. The margins, if any, are wafer thin. The companies may be forced to cut expenditure - such as R&D - which has long gestation period, to stay afloat.**

**This competition is not in long term interest of industry & consumer.**

THANKS