Impact of Globalization on Marketing of Durable Goods

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Abstract
When we think of globalization, it brings to mind the image of rapidly expanding flows of goods, services, and capital across national borders. One day, it seems, our economies will become more global than they are national, just as in the past, regional economies seem to have lost out to national production networks. For many, this means that we will become more dependent on decisions and development processes controlled from outside our nation-states. This research paper fits well with the state of empirical research, since trade statistics are readily available and it is relatively easy to track the evolution of trade in goods, whereas it is extremely difficult to measure location at an international scale.

Markets for durable goods constitute an important part of the economy. In this paper I first briefly review the microeconomic theory literature on durable-goods markets, focusing mostly on their international markets. I then discuss a number of my own recent analyses concerning in durable-goods markets that mostly build on ideas in the larger literature.

Keywords
Globalization, Consumer Durable Goods, Commercialisation

I. Introduction
The demography has witnessed a silent revolution during the 20th century, the growth of medical science gifted greater longevity to mankind in the past century that will result in an ageing population globally. The ageing is a far more serious subject than old age; contrary to the popular misconception that both ageing and old age are synonyms (Bhatia, Hitesh 2009). Were old age merely an elongated process. Population ageing is defined as a process of shift in nation’s population towards older ages. However, India for now is enjoying its demographic dividend and will continue to do so for couple of more decades (Kapila, Uma 2009). With fertility rate falling to 2.6 and the working age group population increasing to over 65% (CIA, World Fact Book, 2010), India will have less dependents both in the age group of below 15 and above 60 years. This shall provide India with a special window of opportunities for business, investment, human development and faster rate of economic growth during the next few decades.

To reap the fruits of demographic transition India needs to up its investment in health, education and physical infrastructure this will not only raise the productivity levels but will also make them more competitive in international markets. The 2010 Global Manufacturing Competitiveness Index has ranked India 2nd after China and ahead of USA and South Korea. Lately, India has been successful in surpassing its image of just being a low cost destination. The R&D integration with engineering and technology intelligence has made India a priority destination for designing and manufacturing innovative products demanded in global markets (Deloitte, 2010).

We propose a model in which countries trade durable goods only. This setup is inspired by the fact that a large portion of international trade is durable goods. Baxter (1995) shows that about two thirds of trade is in durable goods (including capital goods.) Erceg, Guerrieri, and Gust (2006) document a more recent (year 2004) breakdown of US imports and exports. They find that consumer non-durables account for only 28% of non-energy imports and 25% of non-energy exports. In contrast, consumer durables and capital goods account for 32% and 30% of non-energy imports. For non-energy exports, they account for respectively, 16% and 45%. Non-energy industrial supplies, which are used in producing durables, account for the remaining 10% of imports and 14% of exports. We find similar patterns in our OECD country dataset. Trade in durable goods on average accounts for more than 60% of imports and exports for OECD countries. The share increases to 70% after excluding raw materials and energy products in the trade. The importance of capital goods in international trade has also been documented by Eaton and Kortum (2001).

II. Global Durable Goods Market

A. Types of Consumer Durables

B. Top Five Emerging Nations in Consumer Durable Industry
The top five emerging nations in Consumer Durable Industry are CHINA, INDIA, BRAZIL, MEXICO and SOUTH AFRICA. Key points regarding the top five emerging nations are:

• The Top 5 Emerging countries contributed $37.6 billion to the global consumer electronics industry in 2007, with a CAGR of 10.9% between 2003 and 2007.
In 2012, the market is forecast to have a value of $51.2 billion, with a CAGR of 6.4% over the 2007-2012 periods.

China is the leading country among the Top 5 emerging nations, with market revenues of $21.6 billion in 2007.

Pre liberalization, 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.

Post liberalization, foreign players like LG, Sony, Samsung, Whirlpool, Daewoo, Aiwa came into the picture.

Today, these players control the major share of the consumer durables market.

Demand for consumer durables has increased significantly.

Characterized by the emergence of MNCs.

Major target is the growing middle class of India.

Bargaining power of suppliers in consumer durables sector is limited due to threat of imports and intense competition.

Some of the entry barriers in consumer durables sector are distribution network, capital, and ability to hire purchases.

Demand is seasonal and cyclical.

Competition among players is on the basis of difference in prices and well-acknowledged brands.

Global trade has experienced a stunning collapse in the current recession, with the World Trade Organization estimating a decrease of roughly 9 percent in 2009—the biggest contraction since the Second World War. Both imports and exports plunged in major trading countries (Chart 1).

The swift decline caused substantial damage to the global economy, hitting Japan and other countries with large trade sectors especially hard. It also raised concerns that the trade collapse would worsen the global recession and delay recovery.

Several factors contributed to the global trade collapse. However, the ultimate causes are tied to the global financial crisis that started in mid-2007. Financial markets deteriorated over the next year, and the global economy’s growth prospects shifted suddenly in September 2008. In the final months of the year, the forecast for 2009 gross domestic product (GDP) growth went from a moderate slowdown to a sharp contraction (Chart 2).

Consumers and investors worldwide started to realize that the financial crisis’ impact on real economies may be longer and more severe than they had expected. They pulled back significantly, leading to declines in total consumption and investment that spilled over into global trade. Particularly hard hit were consumer and producer purchases of long-lasting goods. We will see that demand for these durable goods played an important role in the recent global trade collapse.

C. SWOT Analysis of Consumer Durables Sector

D. Market Situation and Trends

Consumer durable goods consist of products that are often expensive for the average household, and that are usually expected to last for two or three years. These goods are often purchased as gifts on a seasonal basis or for special occasions. The category includes but is not limited to: recreational goods, sporting equipment, toys and hobby goods, jewellery, watches, kitchenware and other durable household goods with long product life. White goods such as washing machines, refrigerators and coffee machines, as well as brown goods such as DVD players, televisions and stereos are often grouped into this category.
The consumer durables market is huge, as high as EUR 3,500 billion and growing by five percent annually, as family disposable incomes increase and people devote more time to leisure, fitness and sporting activities. The increase in GDP of many developing countries has also created a new, buoyant market for consumer goods, with a steadily growing demand for consumer durables. In Shanghai, for example, disposable income per citizen rose by almost 10 percent in just one year, from 2000 to 2001. These developing markets will spur further demand for consumer durable goods of high quality.

E. Global Economic Factors
The distribution and manufacture of consumer durables occurs in different patterns for various categories of products. China has a long tradition of producing toy merchandise, and now almost all children’s toys are stamped ‘made in China’. Technology innovations, along with competitive labour and overhead costs, have helped to foster new consumer goods industries in Southeast Asia and other regions. The development of the digital watch, for example, sparked a whole new generation of digital timepieces from Malaysia, reducing the demand for the low-end analogue clocks and watches. While some corporations retain partial production in the U.S. or Europe, others have transferred lock, stock and barrel to such countries as Malaysia and China. Expensive, high-end luxury branded items, such as watches and jewellery, have a tradition of being individually crafted. They have exclusive profit margins, so high labour costs are not as important as using horologic craftsmen whose skills are handed down through generations. The manufacture of giftware and kitchenware products is often tied to specific locations where they have been made for centuries, often using locally available raw materials and craftsmen who traditionally belonged to city guilds. Typical examples are European-based manufacturers of high-quality porcelain and cutlery. Distribution for these highly crafted goods, however, usually involves a worldwide network to move goods to both existing and emerging markets. The distribution infrastructure that is required for global business depends heavily on automated IT solutions that link distributors, manufacturers, business partners and consumers.

F. Globalization and Consumer Pressure
Globalization has broken down many of the barriers to progress that held back people. Especially young people all over the world, putting a higher price on their creative powers and hard work. The accompanying technology has bridged geographical divides that separated the haves from the have-nots. In ways that could not even be dreamed of just a few decades ago. But the same processes have widened other gaps, in some countries driving the poor into deeper poverty. And new barriers have been erected, built of the unrealistic aspirations of those who have access to images of a better life but no means to attain it.

The globalization of information through world-reaching television and radio networks, the spreading availability of consumer goods to worldwide markets that results from this leveling-out of knowledge on products and the mass marketing techniques that take advertising both high-tech and low-tech into the remotest and smallest communities, has led to consumer pressures that few communities are equipped to fully satisfy.

G. Market Forces and Unmet Aspirations
Although critics of globalization most often quote the impact of these pressures on the poorest communities, more developed, affluent societies are also affected by the divide between advertising-led aspirations and desires and the ability to fulfil them. This gap between aspirations and fulfilment, in young people who additionally have unmet emotional needs or family deficit factors such as neglect or the stress of abuse, can lead to extreme behaviour. Japan, for example, has seen the impact on its young people of powerful consumer pressures. Since the 1990s there have been many media reports of adolescent girls flirting with prostitution by selling sexual services. Often on a casual or only semi-regular basis in order to earn money to buy consumer goods otherwise beyond their reach. This almost ad hoc entry into commercial sex has come to be known as compensated dating. Some argue (and it is regularly suggested in the press) that compensated dating is a question of choice and that there is no exploitation involved. This is to define exploitation very narrowly. Undoubtedly there is an exploitative link between producers and advertisers who aggressively push their products to children and young people who cannot afford to buy them. When (consumer) pressure mounts beyond tolerable levels, something has to give. Parents have long been encouraged to resist demands from their children that are seen as excessive, so if additionally the child is suffering emotional neglect or abuse, s/he may seek alternative sources of money and fleeting emotional closeness.

H. Confusing Values and Attitudes
At the same time, the cultural confusion that accompanies globalization, where the same products are marketed in widely differing societies, and values that are culturally appropriate in one society are transplanted into others, leaves children and young people in a values vacuum where their bodies, sexual favours and self-esteem are difficult to weigh against a branded sweatshirt or the latest pair of sneakers. This, too, is commercially exploitative, putting the rights of children not to be manipulated and abused below the profit-making motive. Commercialism, cultural confusion and values vacuum translate also into societies in less affluent countries. Even the smallest communities may be seen as potential markets by a world which pays much less attention to helping them to achieve the levels of income necessary to purchase goods without compromising their well-being. As a result there have been reports of families selling children into labour or sexual servitude in order to be able to buy a television or refrigerator. Such mercenary behaviour is not the norm, of course: as in all the issues surrounding commercial sexual exploitation of children, the trading of a child for a consumer goods is the result not only of consumer pressure but of ignorance, skewed values, the low value attached to the child and the girl child in particular, and persuasive forces that exploit and encourage others to exploit also. Not all exploiters responsible for pushing children into commercial sex are pimps and procurers. Some are their family and friends. Advertising and big business, government economic and social policies, marketing and mass media can also be implicated in the exploitation of children for sex.

I. Commercialisation of Consumer Durables
Over the last twenty years the consumer durables industry has become more and more commercialised. Marketing and advertising have targeted the middle to upper income groups that have the disposable income to purchase durable goods and luxury items. The film industry is now closely aligned to the toy industry, and merchandising revenue from new film releases often exceeds movie ticket revenue. Crazes for the BMX bike, roller blades and skateboards have created a whole new sporting
category, so-called X sports, fostering a boom in sales of sport and leisure equipment. The consumer durables industry and the media now influence our lifestyles more than ever. Product lifecycle management and three-way collaboration between retailers, distributors and manufacturers are vital if consumer durables are to be manufactured and distributed in sufficient quantities to satisfy consumer demand. Product lifecycles are short and consumer requirements change quickly. The market’s window of opportunity is sometimes no more than a few months, especially in conjunction with goods that are produced as part of marketing campaigns for new films. New products have to be designed and their sales forecast in short cycles that require extensive supply coordination. Consumer durable goods are often shipped around the world to be available in retail stores to coincide with a film’s release - country by country. Resurgence in demand is probable when the video is later released. This requires careful planning and coordination between the film industry, advertisement agencies, merchandisers and the whole supply chain.

III. Conclusion

Fig. 6:

Trade and trade theory, and different globalization theories are not mirrors of location. They are, variously, complements, outcomes, and partial causes of location. Only by developing the two fields, each in its depth, and through a semi-disaggregated but analytically coherent set of categories – what I have called a moderately complex style of theorizing -- can we come to an understanding of their interrelationships, so that when we speak of one we know more accurately what it implies for the other. The analysis advanced here suggests that much of the existing empirical research on globalization which relies uniquely on trade data will have limited utility for understanding the causes, evolutionary tendencies, and consequences of globalization. It will have limited policy relevance. There is a strong need to develop empirical research on globalization which measures international location in its own right rather than reading it off from trade patterns. It follows that by developing both trade and locational analyses in this way, we would have more powerful and realistic things to say about them, and hence about how globalization will influence people’s lives.

The consumer durables industry in India is set for sustained growth over the long term, fuelled by favourable consumer demographics, overall growth in services and industrial sectors and infrastructure development in suburban and rural areas. Several Indian and MNC players are looking to strengthen their presence in India to leverage this opportunity. Success in the long-term will require firms to develop a wide and robust distribution network, differentiate their products in areas of relevance to the consumer and innovate in the areas of promotion, product financing, etc. The product and approach to market need to be customized to suit the unique needs of the Indian market.
References