



## Sympathetic Value Chain for Growth: A Study of Indian Consumer Durable Industry

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### ABSTRACT

Optimizing the supply chain activities has been the focus of supply chain managers in their quest for creating value, considering value chain for growth has potential to achieve organizational effectiveness- without compromising on operational efficiency – as value chain not only strives to withdraw activities that do not add value to its primary activities, but also introduces support activities such as infrastructure, human resources, finance and technology. This papers aims to provide a grounded understanding of the value chain, marked by theoretical review and analytical constructs. It exemplifies the usage of value chain for competitive and growth by taking the case of an industry group, the Indian Consumer Durable Industry, which asserts the unexpected emergence of the industry group in the first place. Specific level of differentiation and cost benefits can be seen as a source of competitive advantage and growth. The papers builds heavily on the concepts of porters, where he proposes the value chain through which an industry groups can create value in its offering by rationalizing costs- through process of improvement or management- to the elements of differentiation that creates value for the consumers.

**Keywords: Value Chain Understanding, Indian Consumer Durable Industry, Growth and Challenges of Consumer Durable Industry**

### Introduction:

Supply chain Management came into existence primarily to achieve efficiency in operations. The changing dynamics of the market and customer preferences warrant quicker response and elaborate customization. Bloomberg et al. (2002) state, "A chain reach extends only as far as its links stay connected. Its strength depends on the strength of each link; no chain is stronger than its weakest link."

### Literature Review

Porter's work on value chain can be seen as the logical extension of competitive strategy (porter, 1980), to provide a model for competitive advantage (porter, 1985). Porter claims that firms compete from one of the two basic positions, cost advantage and differentiation, with the focus on a broad narrow market. This is termed as Porter's generic strategy, where firms manage their mix of cost advantages or differentiation advantages. Value chain seems to be the model that identifies opportunities for understanding such strategies, not only in the firm's or industry's supply chain, but also across the entire organization or throughout an industry. Understanding the value chain can help to appreciate the factors that are responsible for achieving competitive advantage and thus growth (Porter, 1985), which remains the specific objective of this paper.

### How we use value chain for Growth?

Porter has made it evident that value chain's primary activities address the functions of the supply chain, and confirm that the value chain covers "activities, functions and business process that have to be performed in designing, producing, marketing, delivering and supporting a product or service value chain of a firm or industry is a systematic way of examining all the activities a firm (or Industry) performs and how they interact is necessary for analysing the sources of competitive advantage. The value chain disaggregate a firm (or Industry) into its strategically relevant activities in order to understand the behaviour of cost and the existing and potential sources of differentiation" Porter, (1985).

### Unit of Study: Industry Group

The unit of the study is above the organization or firm level,

it is the Industry group level, where multiple actions taken by the firms constituting that industry group are responsible for the configuration of the value chain. Here, the industry group as a whole is seen to have synergistic effects, which is typical of a value chain. This is representative of a social system, where the interrelated individuals compete and cooperate to form a community of symbolically related groups (van de Ven and Garud, 1989), thus laying the foundation of the industry group.

### Methodology

Analytic Induction commences from an existing theoretical position, and then compares the theory, or emerging theory, with the evidence obtained by idiosyncratic instances/ case selected on the basis of their possible contribution to theory, and the theory is then modified in the light of such case instances (Wollin, 1995). This study warrants the use of analytic-induction technique, where the understanding of the value chain and its configuration for growth is explained in qualitative terms (Patnaik, 2007b). It is proposed to use the complex adaptive systems theory to understand the value chain of the Indian Consumer durable Industry using analytic Induction technique. The research design outlining the broad research path is shown below figure.

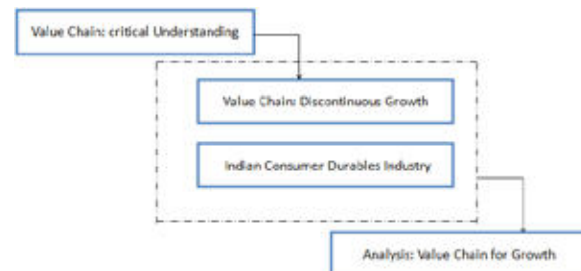
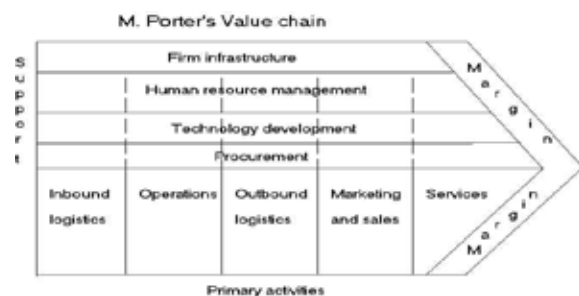


Figure: Proposed Research Path

### Value Chain: A critical Understanding

Value is defined as, " what buyers are willing to pay for a product or service, and the cost of performing the activities

involved in creating it, determines profits" (Porter, 1985). Porter goes on to define value chain as the , " basic tool for diagnosing competitive advantage and finding ways to enhance it". Value chain aims at providing value at all activities that are pertinent in creating value for the customer across the entire supply and demand chain (Patnaik, 2007b). the (Industry) value chain model describes the firm ( or Industry) by different functional activities, which is essential for the company for, "production, marketing, delivery and servicing of the product" (Porter, 1985).Porter has introduced the notion of alliances in cluster or linkages chain through interrelationships (Patnaik, 2007b), and those clusters in fact behave as a industry groups. "competing in related industries with coordinated value chains can lead to competitive advantage through interrelationships.. linkages can lead to competitive advantage in two ways: optimization and coordination" (Porter, 1985). The optimization part takes care of the efficiency part of operations (functions) and the coordination part takes care of the synergy part that leads to effectiveness.



**Indian Consumer Durables Industry**

India will leap frog from twelfth position to fifth largest position in the consumer Market in the world by 2025. Consumer durable is one of the fastest growing industry segments in India; accounting for US\$6.58 billion in 2009-10. According to Cygnus estimates, consumer durables market is further expected to cross the US\$10.0 billion milestone by the year 2011-12, growing at a CAGR of 23.8. The growth in Consumer durable industry in India seems to be balanced and is fuelled by indigenous manufacturing facilities, government support, improvements in technology and growth in customer base from the rural areas. It will be the key challenge for consumer durables manufacturing companies to spend in R&D for surviving in the highly competitive market by introducing innovative products at many affordable prices.

**Overview of Indian Consumer Durable Market**

White Goods	Brown Goods	Consumer Electronics
Refrigerators	Chimneys	Television
Washing Machines	Microwave Ovens, Cooking Range	DVD players
Air Conditions	Mixers Grinders	VCD Players
Audio Systems	Electric Fans	Mobile Phones
	Irons	MP3 Players

(Sources : IBEF, GEPL Capital Research)

As per a recent study, household income in the top 20 boom cities in India is projected to grow at 10% annually over the next eight years, which is likely to increase consumer spending on durables. The rural market is growing faster than the urban markets, although the penetration level in rural area is much lower. The rising income levels, double-income families and increasing consumer awareness are the main growth drivers of this industry.

**Analysis of Growth of Indian Consumer Durables Industry**

Consumer Durables Industry in India to post 15% CAGR growth over next five years. The Industry size is Rs. 350bn, having Growth opportunity in terms of low penetration coupled with increasing disposable income. We believe that the consumer durables industry's growth has been two pronged

(a) driven by lower penetration in rural markets and (b) new innovations and replacement demand in urban markets. Rural Consumer durables markets is growing by 30% currently, expected to grow by 45% in FY12 Approximately 69% population resides in rural India yet only 35% sales is contributed by rural markets. However, this sales contribution is expected to increase to 45% in near future.

**Key growth drivers include:**

1. Continued economic growth demonstrated through 8.4% CAGR growth in GDP over last 5 years
2. Favourable demographics; 64% of the population in working age category
3. Increasing Urbanization, nuclear families
4. Increase in disposable incomes; which drives consumption
5. Increasing affordability coupled with declining prices of products
6. Lower consumer product penetration
7. Availability of new products and technologies,
8. Easy financing schemes and
9. Increase in organized retail.

**Limitations of Scope and Key Assumptions: Theory and Practice**

This paper is built on Secondary data, and takes cue from the seminal work of Porter (1985). Moreover, taking data from sources ranging from research paper of noted scholars to articles on the internet is an important limitation of this paper. Further, the Indian Consumer Durables Industry group has just taken shape and there is no direct way to collect Industry data, other than summation of individual firm's primary data, which gives rise to the fear of spurious data being used.

Thus, secondary data source remains a viable source in this paper. Moreover, the advantage of data collection through secondary sources and linking it across to the overall value chain configuration, overcome the difficulties of longitudinal data collection. Data from well-researched, authorized and official sources have reduced the scope of erroneous or spurious data that might otherwise arise from secondary sources.

**Key Challenges**

1. Intense competition among players
2. Increase in raw material prices
3. Changes in technology
4. Rural distribution
5. Entry of cheap products

**SWOT Analysis for Indian Consumer Durables Industry Strength**

- Presence of established Distribution Network
- Presence of well- known brands
- In recent years, organized sector has increased its market.

**Weakness**

- Demand is seasonal and is high during festive season
- Demand is depend on good monsoons
- Poor government spending on infrastructure
- Low purchasing power of consumer

**Opportunities**

- Penetration level of white good is lower compared to other developing countries
- Unexploited rural market
- Rapid urbanization.
- Increase in purchasing power of consumer
- Easy availability of finance

**Threats**

- Higher import duties on raw material
- Cheap imports from Singapore, china and other Asian countries

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