

Asia's Emerging Local Household Electric Appliance Industries

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ASEAN: Local Companies Survive on the Cheap

Crisis sorts out local companies

Since the currency and economic crises, household electric appliance markets have shrunk across-the-board in the member countries of the Association of Southeast Asian Nations (ASEAN). In Thailand, the scale of this market in 1998 contracted by 40% compared with the peak of 1996. Demand for color televisions, which have a diffusion rate of more than 95%, dropped by 13.4% in 1999, and demand for videotape recorders (VTRs) plunged to less than half of the 1996 figure. In Malaysia too, the output of air conditioners and refrigerators declined by 8.9% and 5.7%, respectively, from the previous year.

Japanese companies display overwhelming competitive strength in the ASEAN market. In Thailand, they boast market shares of 56% for televisions and 92% for VTRs. In Indonesia, they have shares of more than 50% for televisions and more than 70% for refrigerators and air conditioners. South Korean, European, and U.S. makers are also competing ferociously in the ASEAN market, so local manufacturers have only a small presence. Supported by market buoyancy until 1996, local companies did build up their shares, but the shrinkage of the market since the crises has pushed many of them into bankruptcy.

In Thailand, Tanin, which had been engaged in the production of audiovisual (AV) equipment, went bankrupt. In Malaysia, Malaysia Electric Corp. (MEC), the "national electric appliance manufacturer" which had achieved growth supported by the government's promotion of a national brand and the purchasing power of middle-income households, saw its business deteriorate. Under the surveillance of

Danaharta, a special company for asset management, it set about the disposal of its debts and has now started out again as MEC Trading.

One local maker in Thailand's AV market

Nevertheless, despite these adverse circumstances, some local companies have survived. In Thailand's AV market, one company, DiStar, is continuing production. DiStar is a general electric appliance maker that produces color televisions, audio systems, and refrigerators. Its share of the television market amounts to no more than 5% (about 90,000 units). But in discount stores in Bangkok, DiStar's 14-inch color televisions are sold as leading products at 3,990 baht, compared with 4,990-5,990 baht (1 baht = approximately ¥3, US\$0.02) for the products of Japanese companies. DiStar manufactures and sells Aiwa televisions and stereo sets under an Original-Equipment-Manufacturing (OEM) license, so it has a solid technical base.

In the air-conditioner market, the local Saijo Denki (despite the Japanese name, there is no Japanese stake in this firm) has a 9% share and UNI-Air has a

5%-6% share. From 1991 to 1994 UNI-Air conducted OEM production for the U.S. company General Electric, so it now produces mainly ceiling-type and floor-type air conditioners with U.S. technology. Compared with Japanese brand products, UNI-Air's products are inferior in terms of function. For example, they consume a lot of electricity and are noisy, and it is not possible to make fine temperature adjustments. But they do fulfill the basic function of cooling the air, and their price – about half that of Japanese brand products – is attracting support from consumers.

P.T. Maspion: mass production and low prices

In Indonesia, P.T. Maspion, a local general household electric appliance maker, is putting up a good fight. This company's production capacity is large – 24,000 refrigerators, 10,000 washing machines, and 80,000 air conditioners a year. It is hard to believe that P.T. Maspion is developing products from scratch. Probably what it does is disassemble the products of other companies, copy the specifications, and then

Table 1 Market Shares of Color TVs & Refrigerators in China (1998)

Color TV (over 25-inches)			Refrigerator		
Ranking	Maker	Share (%)	Ranking	Maker	Share (%)
1	Changhong	20.6	1	Haier	27.7
2	Konka	17.0	2	Rongsheng	19.6
3	TCL	11.0	3	Meiling	13.5
4	Haier	7.5	4	Xinfei	11.1
5	Philips	5.9	5	Changfeng	6.3
6	Matsushita	5.6	6	Samsung	3.8
7	Toshiba	4.2	7	Electrolux	3.4
8	Sony	4.1	8	Shangling	2.2
9	Haixin	3.7	9	Sharp	2.0
10	Chuangwei	3.7	10	Yangzi	1.9
–	others	16.7	–	others	8.5
–	Total	100.0	–	Total	100.0

Source: Figures are estimates by the China Electronics Information Center

Table 2 Market Shares of Air Conditioners & Fully Automatic Washing Machines in China (1998)

Air Conditioners			Washing Machines		
Ranking	Maker	Share (%)	Ranking	Maker	Share (%)
1	Haier	31.1	1	Little Swan	28.6
2	Chunlan	10.6	2	Haier	27.3
3	GD MD	7.1	3	Rongshida	18.3
4	Kelon	6.7	4	Matsushita	7.7
5	Mitsubishi	6.6	5	Jimling	5.5
6	Hitachi	4.1	6	LG	3.2
7	Haixin	4.0	7	Hitachi	1.9
8	GREE	3.7	8	Haitong	1.5
9	Sharp	3.4	9	Weili	1.4
10	LG	1.0	10	Siemens	0.7
-	others	21.1	-	others	3.9
-	Total	100.0	-	Total	100.0

Source: Figures are estimates by the China Electronics Information Center

redesign them as its own products. P.T. Maspion has assigned Japanese, Korean, and British technicians to its plants and receives their advice in product development.

As a result, P.T. Maspion has an overwhelming price competitiveness. For example, in Japanese yen, the price of an electric fan is ¥1,000 - ¥2,000 (about US\$9 - US\$18). P.T. Maspion sells fans, lighting equipment, and so on in a low price range that is affordable for middle- and low-income households, who do not worry too much about brands. The company's products are especially popular in regions where purchasing power is low. P.T. Maspion's products clear the minimum quality barrier and are commended by Japanese companies in Indonesia for being "simple but having the basic functions."

Increasing segregation of local and Japanese companies

Since the currency and economic crises, it has been local manufacturers producing small household electric appliances, such as electric fans and rice cookers, that have taken the center stage. In Thailand, such local makers as Hatari and Kawa are producing electric fans and selling them for about half the price of Japanese brands. Since the crises, stores have become more aware of the consumer preference for lower prices and are filling their shelves not with expensive Japanese brand prod-

ucts but with cheaper local products. In particular, locally made air conditioners, which imitate Japanese brand products in design and are reasonable in quality, are proving popular among low-income households that previously could not afford such items. Sales were going so well that, in terms of sales volume, these locally made products were expected to overtake Japanese brand products by the end of 2000.

In Indonesia, where there is a wide income gap, in the case of AV equipment, high value-added products are popular among high-income earners. However, in the case of the so-called white-colored household electric appliances, such as refrigerators and washing machines, although the diffusion rate is high among high-income households, actually the tendency is for cheaper products made by local companies or from China and Taiwan to sell well. Perhaps the wealthy folk make do with low-priced products because they leave the household chores to the housekeeper.

The biggest factor in the competitiveness of local companies is their low prices. They have grasped the post-currency crisis consumer mind, which is that cheap products, especially the white-colored basics and small, household electric appliances, are fine as long as they carry out basic functions, and are tending to expand their sales. Japanese companies in Thailand say that local Thai companies are improv-

ing the quality of their products against the background of tie-ups with Japanese firms in the procurement of parts and OEM production for foreign companies.

Many Japanese companies, however, believe that the segregation of local companies and Japanese companies in the market is going to continue from now on, because although local companies have competitive strength in low-tech products, Japanese companies have the overwhelming upper hand in high value-added products. Since it will be extremely difficult for local companies to open up new markets with their own technology, the comparative advantage of Japanese and Western makers will probably remain unchanged.

China: Local Companies Bolster Competitive Strength

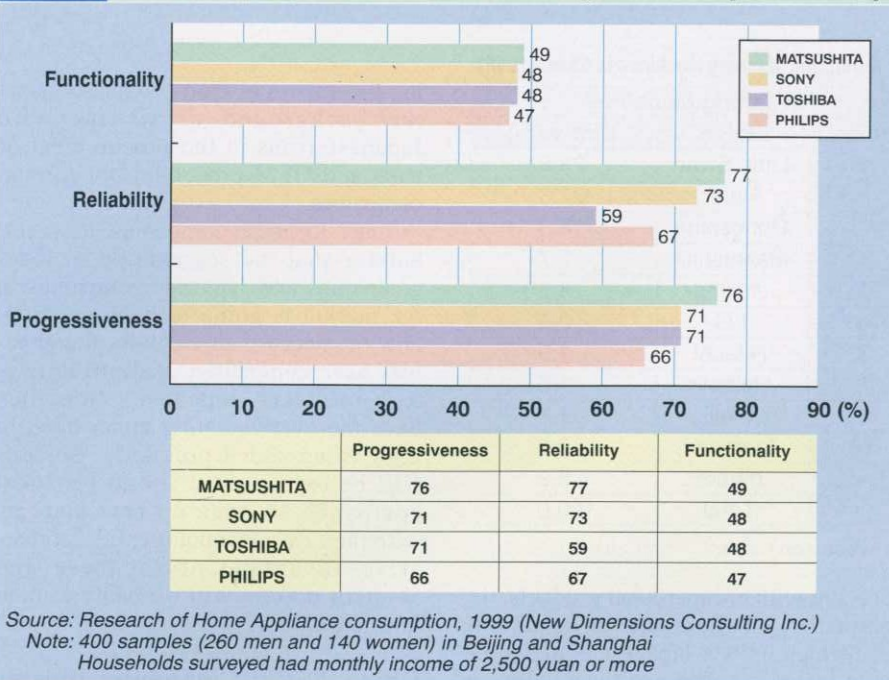
Local companies seize market share

Unlike the ASEAN market, in the Chinese household electric appliance market, which continues to sparkle, local household electric appliance companies are displaying a high degree of market competitiveness. In 1998, the production of color televisions increased to 36.43 million units (up 2.5 times over 1990), refrigerators to 10.60 million units (1.3 times), and air conditioners to 11.57 million units (more than 4 times). In the 1998 color television market, Changhong had a share of 20.6%, Konka 17.0%, and TCL 11.0%. In other words, these top three ranking companies accounted for nearly 50% of market share (Table 1). The highest ranking foreign brand was Philips, which came fourth with 5.9%. Other top-ranking firms were Haier in the refrigerator and air conditioner markets and Little Swan in the fully automatic washing machine market (Table 2).

Strong price competitiveness

One of the secrets of the success of local makers is price. In the intensely competitive television market, the price-reduction war is cut-throat. In four years prices have fallen by half for local brands and by about 30% for for-

Graph 1 Consumers' Assessment of Foreign Brands (Color TVs)



foreign brands. Even so, the price gap between local brands and Japanese brands still stands out. In the case of a 21-inch color television, a product of Changhong Electric Group Corp., which has the largest market share, costs 590 yuan less than a Toshiba brand product (1 yuan = approximately ¥13, US\$0.13). The bigger the television, the wider this price gap. For a 34-inch television, a Changhong product costs 6,400 yuan and a Toshiba product 13,800 yuan – a more than twofold price gap.

Opening the inland market with original processes

Other key factors in the competitiveness of local companies are their thorough after-sale services and their opening of inland markets. Haier now has agents in 9,000 places around China. With the goal of ranking first in market share, Haier sees its biggest task as gaining the trust of customers. Haier is also implementing the “2-1-0 operation,” with the aim of linking the two (“2”) sides of maker and customer with a single unified service (“1”) so as to reduce the distance from the customer to zero (“0”).

The Kelom Group, which ranked seventh in air conditioner sales in 1998,

has air conditioner sales centers in 23 provinces throughout China, refrigerator sales centers in 29 places, and mini-refrigerator sales centers in 21 places. In its effort to open up the refrigerator market, this company has built a plant in Chengdu with the aim of gaining a hold on the inland market, so its refrigerator production setup now covers the three areas of southern, northern, and western China.

Active overseas operations

Many local companies are advancing their product development supported by technical tie-ups with foreign companies. At the same time, there are also companies that are creating high value-added products through their own original product development.

The Haier Group has introduced manufacturing technology for refrigerators from Germany and washing machines from Italy and has a technical tie-up with Mitsubishi Heavy Industries for air conditioners. By introducing cutting-edge technology from abroad and then adding further improvements of its own, Haier was able to put on sale a chlorofluorocarbon-free refrigerator in 1993, ahead of other companies.

At the Chunlan Group, which ranks second in market share for air condi-

tioners, Chunlan College and Chunlan Academy, both affiliated with the group, are taking charge of product development with 5-10 year plans and are continuing their own technological development, establishing a technological development center and a metal processing center.

With technological strength added, local makers are also actively advancing into overseas markets. Haier began construction of its first household electric appliance production plant in North America, in the U.S. state of South Carolina, in April 1999. It already has plants in such countries as the Philippines, Indonesia, and Malaysia, as well as 62 agencies and more than 30,000 sales offices worldwide.

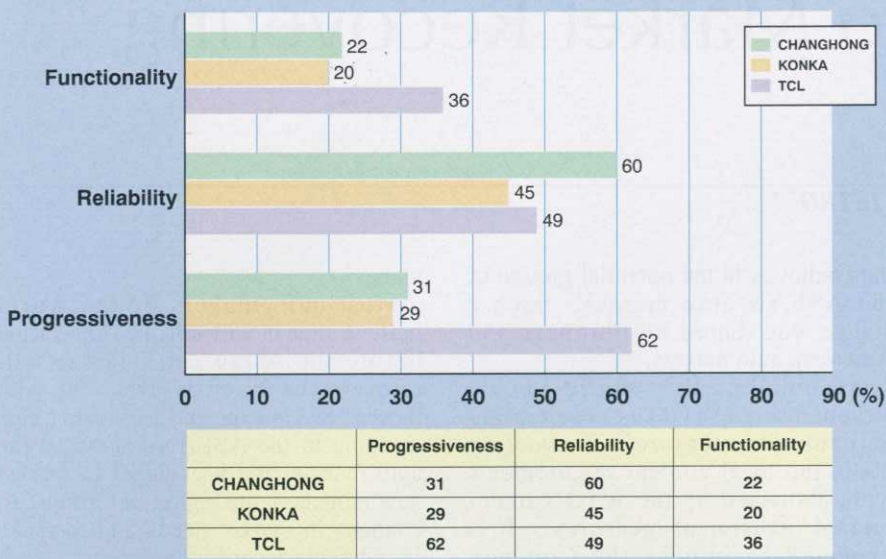
Changhong also announced in 1999 joint production of five million units a year with Turkey's largest color television manufacturer and in September 2000 opened a plant in Indonesia with a production capacity of 800,000 units a year. Not only local companies in Indonesia but also Japanese companies there see the entry of Changhong, which has the strongest brand power in China, into Indonesia as a threat to their operations.

Industrial agglomeration in Southern China

The impact of the industrial agglomeration now taking place in Southern China cannot be overlooked, either. In the Zhu Jiang delta in Guangdong Province, Japanese companies gradually began the export-oriented production of household electric appliances, such as televisions, air conditioners, and cathode-ray tubes, from the 1980s, and in the 1990s Taiwanese companies with OEM licenses from U.S. personal computer manufacturers set up production bases one after the other in Shenzhen and Dongguan.

In the Zhu Jiang delta, local procurement of parts reaches 80%, and nowadays it is being called the largest personal computer business zone in the world. Against the background of this agglomeration of electronic parts, household electric appliance production is also concentrating in Southern

Graph 2 Consumers' Assessment of Domestic Brands (Color TVs)



Source: Research of Home Appliance consumption, 1999 (New Dimensions Consulting Inc.)
 Note: 400 samples (260 men and 140 women) in Beijing and Shanghai
 Households surveyed had monthly income of 2,500 yuan or more

China. In 1998 shipments from Guangdong Province accounted for about 30% of China's televisions and refrigerators and about 40% of air conditioners. China's reformist and open-door policies are most advanced in this region, where companies can gain strong support from local governments in terms of financing and advertising. Moreover, the region offers convenience in terms of information flow and parts procurement, so the conditions for location of household electric appliance production are excellent.

Consumers emphasize quality

China's household electric appliance consumption is centered on urban areas. In 1998, the color television ownership ratio reached 105% in urban areas but only 33% in rural areas, where electric power networks are still not adequately established.

Now that the diffusion of household electric appliances has come full circle, the attitudes of urban consumers toward purchases are gradually evolving. According to the results of a 1999 survey on household electric appliance consumption, consumers show a preference for such qualities as "color," "sound," and "after-sale service" in

their purchase of color televisions. They are not so much concerned about such factors as country of origin and well-known foreign brand names. Also, when consumer attitudes toward domestic and foreign brands were compared regarding the three factors of "functionality," "reliability," and "progressiveness," although such foreign brands as Matsushita, Sony, and Toshiba topped domestic brands in all three categories, Changhong's score on "reliability" was 60%, which was higher than that of Toshiba. And with regard to "progressiveness," TCL's score of 62% was almost on a par with that of foreign brands (Graphs 1 and 2). As Chinese consumers look for greater practicability, the supremacy of foreign brands can be said to be on the wane.

Market competition intensifies as local companies improve quality

The factors that have supported the growth of local companies, which have boosted their competitiveness, have been the introduction of advanced technologies and product development from foreign companies and the procurement of parts through tie-ups. Japanese companies operating in China also point to the dependence of local companies on foreign capital. Local companies are

forced to obtain the key parts for household electric appliances from Japanese companies; they do not have the strength to open markets with their own original product development. In particular, with regard to such appliances as Digital Versatile Disks (DVDs), the market for which is expected to grow from now on, the tendency is for dependence on Japanese companies to increase.

On the other hand, the introduction of technology from abroad has increased the product development capabilities and development speeds of local companies, so the competition between local companies and Japanese companies can be expected to intensify. Chinese small household electric appliances and low-tech products are highly competitive not only in China but also in such regions as Southeast Asia and the Middle East. Such companies as Haier, Changhong, and Konka have set up development centers in Silicon Valley and are also moving into Europe. The China Electric Home Appliance Manufacturers' Association forecasts that this overseas business development by local Chinese companies will further progress.

Japanese companies also recognize that local Chinese companies, as a result of technological tie-ups with foreign firms and the concentration of the electronic parts industry, are securing a satisfactory level of quality that is almost the same as their own. In response to these local companies, which are boosting both quality and low-price competitiveness, Japanese companies are being forced to revise their policy of charging high prices for almost excessive functionality and quality and instead supply products that are more suited to local demand. Amid the intensification of market competition, Japanese companies must review their strategies: They are going to increase the high value-added nature of their products and strive for thorough differentiation, and they are going to add low-price competitiveness to their operations by supplying cheaper low-tech products