

PGDM (RM), 2019-21
Retail Consumer Behaviour
RM-301

Trimester – III, End-Term Examination: June 2020

Time allowed: 1 Hrs 30 Min

Roll No: _____

Max Marks: 30

Case Study

It's been an unwritten rule with Indian consumers: never throw what you buy, always pass it on. But as the economy perks up and consumers cast a glance at their wallets again, the pass-it-on generation is getting bigger. A whole range of products is exchanging hands. And many of them are being replaced by new, smarter varieties.

Indeed, the replacement market is growing. At the moment, it's an estimated 20 percent of Rs. 10,000- odd crore total consumer durables market. But the replacement market is expanding at an annual clip of 15 percent. Admits Kelvinator Vice-President (Marketing) R K Caprihan: "You can't ignore this segment anymore". Says Phillips director and senior Vice-president Manohar David: In colors TV alone, it's about 10 percent and will be growing at the rate of at least 50 percent over the next two years". The action is not confirmed to consumer durables. The replacement business is brewing in the most unexpected industries. Furnishing, furniture, for one. While the Mumbai - - based home furnishing companies. Shyam Ahuja, finds customers returning to its showrooms anywhere one and a half and five years, Vadhera Furnishers in Delhi has seen a phenomenal rise in the number of replacement customers in the past five years. Says Partner, Arun Vadhera:" For one, companies are paying their senior executives a larger allowance for furnishing and furniture. Also, an accomplished executive today gets at least two or three promotions in his prime period and each promotion means a replacement of the interior at home.

So, what exactly is the replacement? Quite simply, the term refers to discarding an old product for a new one. However, in Indian households, it seldom works that way. Goods are used for as long as practically possible and, then safely tucked away in the cupboard. Sometimes, they are passed on to the next generation, and most often find pride of place among the new models. "In the automotive sector, nobody discards a vehicle," says Hindustan Motor Vice President (marketing) R Santhanam. " A car keeps changing hands and in the process, is continuously replaced. But there is no denying that anyone who buys a car today will be a replacement buyer in three to five years".

The signs of growth are already visible. In June when Philips India ran a "Change Old to Gold" scheme in Kolkatta for its color TVs, sales doubled to about 800 sets a month. Says David:" A couple of years ago, you could expect a 20 percent short-term increase in sales from buyback schemes. The 50 percent growth was unexpected."

Come to Delhi. Last month, LML Vespa had a similar experience when it offered scooter buffs in the capital a brand new LML Vespa for an old model of any brand. The day the ads announcing this scheme were published, LML received nearly 100 inquiries. The next few weeks were the busiest ever. Encouraged by success, LML is now planning the scheme regularly. Admits LML marketing Director Ravi Kant: "At least 85 percent of LML buyers are the current owners of a two-wheeler. Part of it would be multiple ownership and part of it would be a replacement."

In that sense, the replacement market is a diffused one. In products such as scooters, cars, and watches, replacement often means multiple ownership. Titan based its entire marketing strategy on this perception. Though company officials were not available for comment, market sources say that 80 percent of the are old HMT customers and already possess a watch. Whatever be the case, as competition hots up in the marketplace. Companies are slowly realizing that there is money to be made from those who already own the goods they are selling. There are several reasons for this.

For one, the normal life of most products is like 10 years. So all those goods which were bought between 1989 and 1990 will come up for replacement now. Those years were marked by a boom in consumer durable sales. So the numbers are expected to be sufficient.

Take scooters. In 1970, only 80,000 vehicles were sold. Assuming that the average age of a scooter is 15 years, the number of vehicles that came up for replacement in the mid-eighties was only 80,000. Around 2000, all those scooters which were bought in the 1990s will be due for replacement.

Besides fashion and styles are changing fast, especially in furniture and furnishings, as well as audio equipment. Says Videocon Vice-President (sales and marketing) N. Gupta: "Fashion products like audios undergoing replacement much faster and customers of even the late eighties are appearing in the replacement market."

So what are companies doing to win them over? The trick, as many of them realizing, is to offer something better and different. Says Ravi Kant: "Most replacement buyers are seeking pleasure in newness and better choices. They are upgrading the product to go up in life. For them, price is not the single most important factor."

The Bangalore-based BPL was quick to accept this perception. So much so that over the past one year it has launched several products aimed at the replacement buyer. First to come was BPL BR 3504- a four-door, frost-free, 350 litre refrigerator (Price: ₹ 35,000) with a host of fancy features. Says BPL director (Central Marketing) K. S. Jayanth Kumar: "This new generation equipment is giving a thrust to the replacement demand. All those upper-class refrigerator owners who plan to replace their products would not hesitate to go for BPL BR 3504 because of its revolutionary design. Besides, many of the existing users who may not have thought of replacement may now be tempted to do so."

Then six months ago, it launched the Top of the line BPL FHR – Emperor. The TV set incorporates five speakers with a special super woofer, a second amplifier, and a surround

sound circuit with 150 watts of power. Not just this, BPL's two new VCR models, including the one with a Karaoke system,, targets the replacement buyer.

Other companies are learning from this, Kelvinator is aiming its 310 Sterling refrigerator at the replacement buyer and 80 percent of Videocon's no-frost refrigerators are being purchased as replacements for the conventional 165-liter refrigerators, which may be about 10-15 years old.

The stakes are particularly high in electronics. Besides BPL, Philips is encouraging music aficionados to tune into its powerhouse sound system and exposing Indian TV viewers to flat, square sets, large screens, and remote control.

Technology apart, companies are hitting other routes to the replacement market. Buyback schemes such as for Philips color TVs and LML Vespa scooters are obvious options. But Shyam Ahuja is going a step further. Working on a database of regular customers culled from a clientele who have purchased at least once from any of the Shyam Ahuja outlets, the company is making 'customer-friendly offers to friendly customers.' This includes the first choice to these regular customers during the Diwali sale and other special sale events.

The company is also in the process of forming a Decorators' Club through this club, a select category of decorators will be sent free samples and stock statements., besides monthly visits by the company's sales force and a courtesy non-transferable discount.

Thousands of kilometers away, in a completely diverse industry, Hindustan Motors is following the same tack. The automobile manufacturer is trying to make customer support an aggressive quality improvement program its strong point. Says Santhanam: "We want to keep our customers happy. That will automatically attract replacement buyers". All of them are fiercely hoping that the current pace of economic growth will continue. Says Caprihan: "At the moment, the consumer's mindset is very euphoric and this is essential to get him to spend money: Let's hope the government doesn't change."

In the end, one thing is clear: Old is no longer Gold. That's something more and more companies are acknowledging date.

QUESTIONS:

1. Discuss whether the goal of attitude change might be a useful marketing strategy to consider? (10 marks) **CILO 1**
2. How would you Characterize consumers' attitudes toward replacement? (5 marks) **CILO 2**
3. Assuming that a large number of consumers acted as described in the case, what implications for the communication strategies are suggested? (10 marks) **CILO 2**
4. Do you find social class as a relevant factor in this case? (5 marks) **CILO 3**