Running away with the Indian market

Within a decade of setting up business in India, the Korean majors have outflanked the competition in many consumer product categories. Established American, European and Japanese brands have been unable to stop the juggernaut. What is the secret of their success? Is it sustainable? **N Chandra Mohan** finds out.

South Korea is popularly referred to as the Land of the Morning Calm but its chaebols could hardly be subscribing to that calmness going by their success in emerging as market leaders in India. After they took a strategic decision to invest in the country in the 1990s, business groups like Daewoo, LG, Samsung and Hyundai stepped up their exposure with a surefootedness and speed that upstaged rival Japanese, European and US consumer companies.

Daewoo got enmeshed in serious problems back home in Korea just when it revved up to participate in the Great Indian Auto Race in the late 1990s. The biggest chaebol in cars, Hyundai, put up a state-of-the-art manufacturing facility in the state of Tamil Nadu with a capacity of 150,000 cars. It rolled out the first major challenge to the dominance of Maruti Udyog in the compact segment with its Santro, barely 17 months after ground breaking in end-1998. Today, it is India's second largest carmaker.

However, the segment which the Koreans have really dominated is the so-called white goods comprising colour TVs, washing machines, refrigerators, microwaves etc. The spearhead of the assault on the Indian market originally was Samsung Electronics India that got going in December 1995. LG commenced operations later in May 1997 and within just four and a half months, it had a nationwide launch of its products. LG now occupies the numero uno slot and, together with Samsung, accounts for one in three of colour TVs, half of the washing machines, microwaves ovens and frost-free fridges sold in India.

The upshot is that the Koreans have run away with the market barely a decade after setting up shop in India. They splurged on marketing and sponsored high-profile sporting events like cricket. They established outposts all over the country, especially in small town and rural India — which accounts for 35 to 40 per cent of LG's sales. The Koreans thus became household names in the domestic market. Looking ahead, Hyundai has made its small car production the hub for its global operations. Samsung and LG are also the export hubs for their parents' south-west Asian operations.

All of this forcefully underscores an important element in the Korean success story — that all the chaebols in question, Hyundai, Samsung and LG, have a long-term commitment to India. Unlike neighbouring Japan, South Korea made up its mind faster to come here. While LG and Samsung were busy ramping up their capacities, their Japanese rivals were fixated on China.

Hyundai has so far invested $1 billion in its Indian manufacturing facility. After Santro's runaway success, the company introduced other models and volumes picked up. The company decided to expand its capacity to 250,000 units in 2004. With car sales touching 215,630 units that year, Hyundai decided to set up a second facility to make an additional 150,000 units and is targeting 20 per cent of the Indian car market by 2007. LG's facilities can assemble 2 million colour TVs annually, while Samsung's capacity is 1.5 million.

With such capacities, the Koreans clearly intended to push volumes in a price-sensitive market like India. They realised that Indian consumers wanted world-class goods at reasonable prices. An indicator of their success is the speed with which they registered milestones,

TECHNOLOGY AT LOW PRICES: Consumers viewing a Samsung plasma tv at a showroom

> The Korean chaebols can be aggressive in their pricing as LG and Samsung can cross-subsidise their losses in appliances with profits from colour TVs, DVDs, music systems, etc.

such as Hyundai rolling out 700,000 cars in 70 months after commencing manufacturing in the late 1990s. Or LG selling 100,000 airconditioners in a calendar year. Or Samsung, cumulatively selling one million colour TVs three years after starting operations in 2000. LG followed suit in 2002.

Pushing volumes at affordable prices requires control over costs. In this brutal consumer-driven market, even wafer-thin margins have so far eluded the major players. Unlike most of their rivals, however, the Koreans succeeded in their drive as they indigenised their operations quickly. Hyundai's Santro rolled out with localisation levels of 85 per cent. LG and Samsung too localised rapidly in home appliances and consumer electronics, with the former's levels being 70 per cent, going as high as 95 per cent in fridges. Samsung's, on the other hand, ranges between 50 to 60 per cent overall.

With huge capacities and cost control, the Koreans sallied forth into battle as 'price warriors' in their quest for dominance in white goods. A lot, however, was also happening in India during those

On the Web
Samsung India: www.samsung.com/in
LG Electronics India: www.lgezbuy.com
Hyundai Motor India: www.hyundai.co.in

LG SPEAK

K R Kim, MD, LG Electronics India Ltd, spoke to N Chandra Mohan about his group's operations in India. Excerpts from the interview:

What has been LG's strategy in India?

This country is one of its biggest global markets and therefore LG's strategies are quite aggressive to ensure huge growth. LG India has done a creditable job of making it big in the consumer durables market.

LG India will also become the export hub for LG worldwide catering to the Middle East and African markets. The company aims to touch an export turnover of $3 billion by 2010, which will contribute to 30 per cent of LGEIL's turnover. LG is also looking at introducing LG Shoppes and exclusive stores in key cities all over the country and gradually taking them to the B&C class cities.

How has LG fared better than older European and Japanese brands?

Through latest global technology, new breakthroughs, continuous research and development work, LG has set new industry standards in customer service and product innovation.

Another distinguishing factor is that it has one of the widest coverage of service centres. LG is also the first Indian consumer durable brand to cater to the rural and semi-urban population, contributing almost 40 per cent of LGEIL's total sales turnover presently.

years when the Korean majors were sharpening their marketing thrust. During the go-go years of the 1990s, the market for white goods, two-wheelers and cars boomed with the sharp drop in bank interest rates from 18 per cent to 8 per cent. But from 2000 onwards, however, too much supply started chasing too little demand. The Koreans are volume players but whether they have made any money so far is a matter of conjecture, as the chaebols do not release profit statistics.

What is beyond doubt, however, is that their aggressive pricing knocked out the competition. LG's fridges were 5 to 16 per cent cheaper than its rivals. So too were its colour TVs. And prices have been dropping. A 5 kg capacity automatic washing machine currently sells for $140 compared to $186 two years earlier. A 1.5 tonne air conditioner is available these days for $350 as against $580 three to four years ago. With price erosion, even the low margins in this business vanished, triggering a shakeout in the industry. Rivals like Electrolux-Kelvinator India, Whirlpool were pushed into the red and into the waiting arms of Videocon.

Colour TVs, bucked this trend as booming volume growth of 17 per cent compensated for the 12 per cent erosion in prices in 2004-05. For flat-screen colour TVs in particular, volume growth exploded by 108 per cent.

However, demand has stagnated in some categories. Thanks to the easy availability of housemaids, demand for washing machines has virtually plateaued at 1.1 million units six years ago, nudging up to 1.4 million last year. Similarly, the demand for fridges is also not taking off. Overall demand last year amounted to 3.3 million sets last year while the capacities built up in the industry are a massive five million units.

The Koreans can take all these daunting trends in their stride as they are present in all the segments of consumer electronics and appliances. LG and Samsung can thus cross-subsidise their losses in appliances with profits from colour TVs, DVDs, music systems, mobile phones etc. With margins in colour TVs remaining healthy at 8 to 9 per cent, the scope for making up for the carnage in appliances is considerable. If this is the current reality of the Indian marketplace, questions naturally are bound to arise whether the Korean leaders' strategy to grab market share at all costs is sustainable.

To be sure, the chaebols are reassessing their strategies in India and are seeking to differentiate themselves from their reputation for 'spoiling' the market with their aggressive pricing. LG thus may have pushed sales volumes as fast as 76 per cent on a compound annual basis from $28 million in 1997 to $1.45 billion in 2004. But there is only that much additional pickings left for an economy brand. The company has, accordingly, decided to move into the premium segment in a much bigger way.

Samsung, for its part, to differentiate itself from LG's aggressive pricing while pushing volumes to challenge the latter's dominance in flat-screen colour TVs. Samsung also seeks to consolidate its position in the number two slot in air-conditioners while expecting a leadership position in frost-free fridges by 2006. Although Samsung began operations in India earlier, LG forged ahead in sales and dominance much to its chagrin. Samsung's turnover of $1 billion thus has a lot of ground to cover to catch up with LG.

Samsung's major advantage, however, is that it can piggyback on the reputation of its $55.2 billion parent as a global brand for innovation and technology. The company, therefore, emphasises that it is a technology leader which is more value-driven than price-driven. One example of all this is its shift from traditional TVs to flat-screen ones which now account for 90 per cent of its TV sales. Another is its edge in mobile telephony space with the first TFT phone. Korea's chaebols thus are reinventing themselves to destroy the morning calm of their rivals.

A QUESTION OF NUMBERS

THE KOREAN chaebols dominate India's white goods market with LG occupying the leadership slot with a share of 25.5 per cent in colour TVs, followed by Samsung's 17 per cent, according to data compiled by the premier market research agency ORG-GFK for 2004-05. LG's dominance is also seen in its commanding 41 per cent market share in microwave ovens and 34 per cent in washing machines. What is interesting is the huge gap between the leader and the number 2 player in this business, which happens to be Samsung in the case of colour TVs and microwave ovens and Whirlpool in fridges and washing machines.

Videocon Ltd doesn't accept the veracity of ORG's numbers. Since the late 1990s, ORG's estimates have come under its critical scanner for not reflecting Videocon's true market share, which it says can be arrived at by aggregating sales of the various Japanese and European brands that it acquired such as Akai, Sansui, Kenstar, Electrolux-Kelvinator, Toshiba and Hyundai.

Besides market shares, the industry's estimates of sales is also dated and highly provisional. LG's website, for instance, only provides sales numbers from 1997 to 2002 when sales crossed $666 million!

Samsung is now updating its website with more up-to-date estimates for 2001 and 2002. For 2003, it remains unchanged at $824 million while for 2004 its turnover is $1 billion — which misses the target of $1.17 billion. No other financials are available to assess the dominance of these chaebols.