Part Sample Page of a Market Research Report

Market Report of

Selected Electrical Home Appliances

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1 Current Status Of Electrical Home Appliance Industry

The development of electrical home appliance industry in China has experienced three stages: initial development stage in 1979-1983; fast-growing stage in 1984-1988; and stable adjustment stage since 1989.

During the initial development and fast-growing stages from 1979 to 1988, the demand for and supply of daily-use electrical appliances grew rapidly in China. During this period, the possession of household refrigerators increased 101 times, with an annual growth of 78.14 per cent; the possession of washing machines increased 287 times at an annual growth of 102.88 per cent. Also during this period, domestic demand for refrigerators had kept increasing at an annual rate of 92.23 per cent and that of washing machines at 84.82 per cent.

The fast solution of the massive demand within a short period of time led to a remarkable slowdown of the demand in the following years. During the seven-year period from 1988 to 1997, the national refrigerator possession grew 22.98 per cent a year on average. The growth rate was 94.78 percentage points lower than that in the previous stage. The domestic possession of washing machines grew 8.67 per cent a year on average, down 93.49 percentage points. The large-scale drop of the growth of demand restricted production growth. During the seven-year period, refrigerator output in China grew a meager 2.97 per cent a year on average; and that of washing machines dropped 1.45 per cent annually on average.

1996 was a year when electrical home appliances grew stable in China. Production was oriented by market demand, and supply was more closely related with demand. Major appliances experienced rise and fall to different extent. The washing machines sector, which experienced negative growth on the previous year, achieved a 13-per-cent growth in 1996 to arrive at 10.68 million units. Refrigerator output was at the same level as that in 1995 at 9.28 million units. Range hood and electric cooker production experienced large-scale drop. Range hood output was 2.64 million units, down 30 per cent, and that of cookers was 14.24 million units, down 12 per cent.

Table 1 Output Of Selected Electrical Home Appliances (Unit:1000set)

	1996	*1997*	*2000 demand*
Refrigerators	9,282	9,746	14,000
Washing Machines	10,689	11,972	16,800
Cookers/Cooktops	14,240	20,000	
Dryers	406		
Range hoods	2,640		

One of the features of electrical home appliance export in 1996 was that the position of foreign-funded enterprises improved largely. Their exports climbed to 50 per cent of the national total in 1996, compared with 38 per cent a year ago. The position of the State-owned enterprises, however, dropped remarkably. Their exports declined from 52 per cent of the national total to 40 per cent. Foreign investment has produced impact to the appliance industry. In 1997, dozens of Sino-foreign joint ventures will become operational. These joint ventures have the advantage in capital, technology and brand, and they will quickly squeeze into the Chinese market.

2 Government Policies

China does not offer special policies to the domestic appliance industry. The appliance industry is an emergent sector with fierce market competition. To cope with the growth of the appliance industry, the entrance of foreign companies and expansion of Chinese manufacturers abroad, to standardize competition behaviors, to create an environment for fair play and to meet the demand for healthy development of the appliance industry in China, the China Association of Electrical Home Appliance Industry worked out the ***Accord of the Chinese Electrical Appliance Industry for Civilized Competition*** in 1997.

China mainly obtained the state-of-the-art technology of manufacturing and product technology of electrical home appliances through imports, which has resulted in such fatal weakness as poor ability for product development, domestic supply of spare parts and raw materials.

Electrical home appliance industry has long been one of priority industries of government assistance. The government had adopted high tariff policy as well as import license system to electrical home appliance import to protect the domestic market. Details see the following table.

Table 2 Tariff and non-tariff Control on Importation of Selected Durable Consumer Goods

H.S Code	DESCRIPTION	Import Duty Rates		VAT	Import License	Import Quota
		M.F.N.	Gen.			
	Refrigerators					
84181010	Combined refrigerator-freezers, fitted with separate external doors, Of a capacity exceeding 500 Litre	30	100	17	Import License	Machinery & Electrical equipment quota
84181020	Combined refrigerator-freezers, fitted with separate external door, of a capacity exceeding 200 Litre but not exceeding 500 Litre	30	130	17	Import License	Machinery & Electrical equipment quota
84181030	Combined refrigerator-freezers, fitted with separate external door, of a capacity not exceeding 200 Litre	30	130	17	Import License	Machinery & Electrical equipment quota
84182110	Compression-type refrigerators, household type, of a capacity exceeding 150 Litre	25	130	17	Import License	Machinery & Electrical equipment quota
84182120	Compression-type refrigerators, household type, of a capacity exceeding 50 Litre but not exceeding 150 Litre	25	130	17	import License	Machinery & Electrical equipment quota
84182130	Compression-type refrigerators, household type, of a capacity not exceeding 50 Litre	25	130	17	Import License	Machinery & Electrical equipment quota
84182200	Absorption-type, electrical refrigerators, household type	35	130	17	Import License	Machinery & Electrical equipment quota
84182900	Other refrigerators, household type	35	130	17		
	Washing Machines					
84501100	Fully Automatic Washing Machines, each of a dry linen capacity not exceeding 10 kg	35	130	17		
84501200	Washing Machines, with built in centrifugal drier, each of a dry linen capacity not exceeding 10 kg	35	130	17	Import License	Machinery & Electrical equipment quota
84501900	Other Washing Machines, each of a dry linen capacity not exceeding 10 kg:	35	130	17	Import License	Machinery & Electrical equipment quota
84502000	Washing Machines, each of a dry linen capacity exceeding 10 kg	25	80	17		
85166030	**Cookers**	35	130	17		
84221100	**Dish washing machines of the household type**	25	90	17		
84146000	**Range hoods having a maximum horizontal side not exceeding 120 cm**	20	130	17		
84211210	**centrifugal clothes-dryers of a dry linen capacity not exceeding 10 kg**	20	70	17		
84211290	**centrifugal clothes-dryers of a dry linen capacity exceeding 10 kg**	15	30	17		

Foreign products, before entering the Chinese market, must pass the CCIB standard issued by the State Administration for the Inspection of Import and Export Commodities, in addition to requirements such as national security certification and meeting environmental protection standards.

The inspection procedures include: quality, specifications, quantity, weight, packaging of commodities and whether these commodities are up to the safety and hygiene standard.

Enterprises has the autonomy in business administration, and such matters as how to use foreign brands or how to jointly use foreign brands are up to the decision of both co-operative partners.

3 Purchasing Behaviors And Consumer Psychology

Daily-use electrical appliances are consumer products for the public. The change of its market demand is vulnerable to such elements as purchasing power, consumers' anticipation of prices and consumption habits.

3.1 Purchasing power

As the Chinese economy grew fast in recent years, the income of the Chinese people had increased largely. During the Eighth Five-Year Plan period, the average per capita income of urban residents rose from 1,387.30 yuan to 3,892.90 yuan, growing 22.90 per cent a year on average; per capita net income of rural residents grew from 686.30 yuan to 1,577.70 yuan, rising 18.10 per cent a year on average. At the same time, because of the effect of the reform of distribution system and other elements, the income disparity has kept expanding. The difference between the average per capita consumer spending between urban highest income families and the lowest increased from 2.74 times in 1990 to 2.93 times in 1995. Both the rise of income and the increase of income disparity will lead to the rise of the overall purchasing power of the society. As China's overall economy is expected to continue its growth momentum this year and the next, the income level of the Chinese residents and the income structure will also continue the development momentum initiated since this year. The reasonable rise of the income will ensure the purchasing power needed for limited expansion of daily-use electrical appliance market.

3.2 Price anticipation

After two years of macro-regulation by the government, the price rise level has returned to the normal spectrum. The 1997 price movement will continue the 1996 trend -- continuous growth at low speed. Good price prospect and people's confidence to the government's regulatory ability have made residents have low anticipation of the price rise level and a stable consumer psychology, which will help the smooth operation of daily-use electrical appliance market, devoid of sharp rise or fall.

3.3 Consumption habit

The improvement of living standard in recent years has imperceptibly influenced the habit of spending of urban and rural residents as they pay more attention to leisure time. When they select commodities, they emphasize convenience for use and how they can substitute people in doing family chores. Such a change of consumption habit will influence the demand structure of daily-use electrical appliances. In coming years, demand for highly efficient new products will rise remarkably.

3.4 Customers' support

The improvement of services before, during and after sales and promises to buyers concerning different aspects have become especially important in marketing. Honoring promises has helped promoting manufacturers' image. Advertising and new services jointly undertaken by manufacturers and retailers were common phenomenon of appliance sales in 1996.

4 Consumer Durable Market Analyses

4.1 Refrigerators

4.1.1 Market Size And Forecast Demand

China made 9.28 million refrigerators in 1996 when the sales of domestically-made refrigerators had 99 per cent of the domestic market share. About 1 million Chinese-made refrigerators were exported that year. In 1997 the output of refrigerators will increase 5 per cent, and reach 9.7 million sets. The market demand for refrigerators will be 14 to 16 million sets in year of 2000, and urban household possession of refrigerator will increase from 66 per cent in 1996 to 86 per cent in 2000.

Refrigerator market is composed of two segment of urban and rural areas.

(1) City and Towns. In 1985, only 9.57 per cent of urban families had a refrigerator. Over one decade later, refrigerator ownership in urban families has improved rapidly. In 1996, every 100 urban families owned 70 refrigerators. Refrigerator has become one of the three essential appliances in urban families. The overall demand tendency of urban refrigerator market is: coexistence of additional purchasing and replacing. A large umber of refrigerators now used in urban families have entered the replacement period. Products having large freezing cabin, free of CFC, energy saving and low noise will be of high demand. The total amount in demand will rise stable and prices will rise slightly.

(2) Countryside. In 1985, only 0.06 per cent of rural families had a refrigerator. In the past decade, the introduction of refrigerators to rural families has been undertaken very slowly. In 1996, every 100 rural families had only 6 refrigerators. It was still at the initial stage for popularizing household refrigerators in the countryside.

Income level is a direct element deciding consumption growth for electrical home appliances in the countryside. In recent years, the income of rural residents has kept rising, and so as the spending on electrical home appliances. Since 1991, farmers' income growth has stopped fluctuating. Purchasing of electrical home appliances in every 100 households have improved to different extent.

Table 3 Rural Household Net Income And Possession Of Electrical Home Appliances

	Unit	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*
Per Capta Rural Household Net Income	RMB yuan	708.55	783.99	921.62	1220.98	1587.00	1926.07
Color TV	Set / 100 Households	4.72	8.08	10.86	13.52	16.90	22.91
Washing Machines	Set / 100 Households	9.12	12.23	13.82	15.30	16.90	20.54
Refrigerators	Set / 100 Households	1.22	2.17	3.05	4.00	5.10	7.27

When comparing the ownership of three most major electrical home appliances, it is indicated that the popularization of refrigerators in rural families is obviously lower than color television and washing machines. The former is still in the initial growth stage for the popularization of a product. Income improvement, however, is challenging rural families' standstill demand for refrigerators. By June 1996, refrigerators smaller than 200 Litre accounted for 62 per cent of those already sold to rural families. Despite that small refrigerators are of dominant demand in rural areas, there is still market for the products larger than 200 Litre in the rural market.

One of the major problems hindering the development of refrigerator industry at present is idle production capacity. In 1996, the national refrigerator production capacity was about 20 million units, doubling the year's actual output. About half of the equipment were idle. Instant investigations conducted by the State Planning Commission and the State Statistics Bureau indicate that there were 12 new projects under construction at the end of May 1996, bringing an additional capacity of about 2 million refrigerators.

Another problem is that manufacturers of small capacity scattered around the country. In 1996, China had over 180 refrigerator manufacturers based in 19 provinces, municipalities and autonomous regions -- each of these provinces has about 10 refrigerator manufacturers. The density in coastal regions is even higher. The arrival of foreign brands to the Chinese market in recent two years is another blow to the Chinese refrigerator industry.

4.1.2 Major Players

In 1989, there were 256 refrigerator manufacturers in China. After years of competition and dropping out, the number reduced to over 100 in 1995. The industry has a number of well-known brand established amid competition. They include Rongsheng, Haier, Meiling, Yangzi, Shangling and Xingfei. But, there are still a number of enterprises whose equipment are idle and who are awaiting for closure or merge. Out of 64 refrigerator assembling plants, 14 have an annual output exceeding 200,000 refrigerators and their combined output account for 87 per cent of the national total, that is 87 per cent of the national output are produced by only 22 per cent of refrigerator manufacturers.

The China Association of Electrical Home Appliance Industry just published top refrigerator manufacturers in terms of 1996 output and sales. Kelon Group, with an annual output of 1.805 million refrigerators, ranked as the top refrigerator manufacturer for six consecutive years.

In December 1996, Kelon opened two manufacturing bases in Chengdu and Yingkou. Expected operation of the two plants in 1998, each capable of producing 500,000 refrigerators a year, will expand the production capacity of Rongsheng refrigerators from the current 2 million to 3 million a year. Kelon Group also invested over 100 million yuan to establish a modern research institute in Japan. Kelon (Japan) Co., Ltd. has recruited top appliance experts in Japan, America and Europe to supply the latest electrical appliance technology of the world. In the past year, Kelon Japan has applied integrated air vertical refrigeration, completely computer fuzzy control and other advanced technologies in Kelon's production. In July 1996, Kelon's Class-H shares were listed at the Stock Exchange of Hong Kong.

In May 1995, the government adopted the "exporting one, awarding one" policy, under which enterprises exporting one refrigerator was allowed to import one compressor. Manufacturers or enterprise groups that exported at least 1,000 refrigerators annually were offered the "exporting one, awarding one" treatment. However, lured by abundant capital resources of foreign multinational companies and under their threaten, some Chinese enterprises started joint ventures, some of them have even lost the controlling power in the joint ventures. The refrigerator market competition has extended from home to abroad, and become white-hot.

Multinational companies, with strong capital resources as their backup and at the cost of losing money, have purchased a number of Chinese brands to piece eat the Chinese refrigerator market in forms of purchasing and controlling shares of Chinese enterprises. Whirlpool of the United States, for example, has purchased Beijing's Snow Flake, LIDO (transliteration) of Sweden bought Changsha's Zhongyi, Samsung of Republic of Korea controlled Suzhou's Xiangxuehai and BOXIWEI (transliteration) of Germany purchased Chuzhou's Yangzi, and etc.

Table 4 Foreign Firms Producing Refrigerators In China By 1996

Company	Place of production	Brand used	Annual output
Whirlpool, US	Beijing (Snow Flake)	Whirlpool	1 million
LIDO, Sweden	Changsha, Hunan (Zhongyi)	Electrolux	1 million
BOXIWEI, Germany	Chuzhou, Anhui (Yangzi)	BOXIYANG (transliteration)	1 million
Matsushita, Japan	Wuxi, Jiangsu (Little Swan)	National	1 million
Sharp, Japan	Pudong, Shanghai	Sharp	1 million
Samsung, Korea	Suzhou, Jiangsu (Xiangxuehai)	Samsung	1 million
Meitaike (transliteration), USA	Hefei, Anhui (Rongshida)	Meitaike	1 million
LG, ROK	Taizhou, Jiangsu (Chunlan)	LG	1 million

The Chinese Government will work out anti-dumping policies to protect the national industries, restrict unfair competition within the industry (under which foreign companies are used to beat other Chinese players), and require foreign investors and joint ventures promising to export a certain percentage of their output.

4.1.3 Market Share

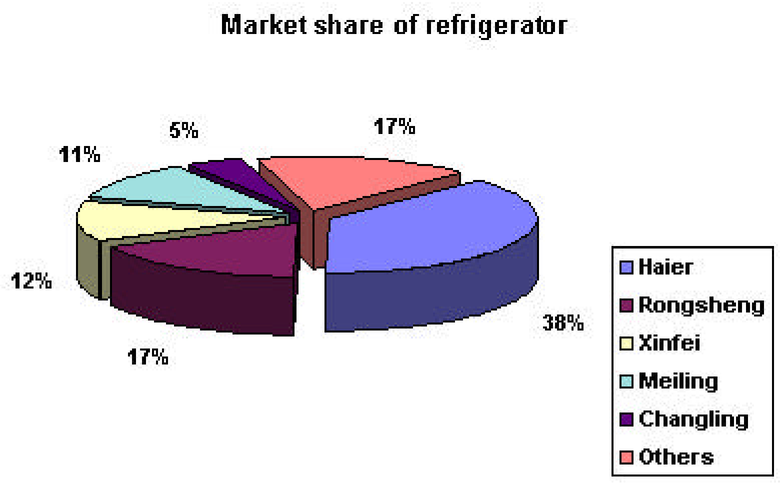
In 1996, China's refrigerator market was dominated by domestic brands. Sales of foreign brands were less than 3 per cent of the total, and 95 per cent of foreign brands were sold in Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang and Guangdong. Refrigerators with the capacity between 180 Litre to 220 litres occupied more than half of the sales.

According to the December 1996 edition of Investigation to 100 Stores, Japan's National refrigerators had broken the long-time monopoly by Chinese brands in top 10 refrigerators. It ranked eighth.

Table 5 Beijing’s Market Share of Refrigerator

Brand	*Market Share (%)*	*Average Price (yuan)*
Haier	37.7	3,246
Rongsheng	17.3	2,645
Xinfei	12.3	2,786
Meiling	11.2	2,494
Changling	4.6	2,677
Others	16.9	

Graph 1 Beijing’s Market Share of Refrigerator



4.1.4 Trends

(1) The CFC substitution process in refrigerator production in China has been accelerated. Major manufacturers have been able to produce CFC-free products. Output of refrigerators with CFC substitutes has been raised as 25 per cent of the output were completely free of CFC in 1996, which met the demand of exporting to the developed countries as well as consumers' requirement for environment friendly products on the domestic market. Competition for the market shares has become fiercer. Haier, for example, has adopted such measures of developing diversified new products to suit consumer groups of different levels and of opening franchise shops in large department stores to improve its market share. Kelon has offered varieties of products to expand its market sphere and Xingfei has attempted to attract consumers by offering environment friendly products.

(2) At present, development of refrigerator products tends to be varied. Apart from such high demands on energy-saving, low-noise and other functions of public knowledge, other requirements such as both extremely large and extremely small capacities, diversified partition of refrigerator cabins and adopting environment friendly substances as refrigerants have become widely pursued by consumers.

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