“An Analytical Study on Rise of Chinese Brands of Mobile Handsets in India and Customers’ perception towards these brands”

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Introduction

“Victory comes from finding opportunities in problems.” – Sun Tzu.The Chinese smartphone manufacturers seem to have taken this maxim from the great strategist Sun Tzu quiet seriously and that is evident from the success which they have got in the Indian market. The trends of the last few years shows home-grown smartphone brands losing their dominance to a gradual increase in Chinese presence. The top player in India as of now is Xiaomi, accounting for 29.7% of all smartphone shipments (IDC data). The company—which introduced itself with competitively priced devices—has slowly built its base in the country over the past five years, and is now enjoying the fruits of its labour.As per data from IDC, four of the top five smartphone brands in India are from China—Xiaomi, Vivo, Oppo and Transsion hold the 1st, 3rd, 4th and 5th positions, respectively. Samsung the old war horse which ousted Nokia from the Indian marketmaintains its number two positions. China and India ranked among the world’s largest developing nations, fastest growing economies, most populous states and greatest ancient civilizations.

A brief history of the ‘Handset ‘wars in Indian Markets

Phase I

The first phase of the Indian smartphone market was dominated by Nokia the finnish manufacturer for a straight long period of 14 years.This domination was initially challenged by and then subsequently surpassed by the Korean handset maker Nokia.In the year 2011.GfK-Nielsen puts Samsung's share at over 43 per cent of the smartphone market in March's volume sales compared to the 29 per cent of Nokia. While Samsung grew its share in smartphones to 26.7 per cent in 2011 from 4.9 per cent the year before, Nokia saw its share shrink from 83.5 per cent 46.1 per cent.Such market-disrupting growth by Samsung India can be traced to a global strategic decision by its parent made on Android, the open source mobile operating system championed by Internet search giant Google, as late as 2009. Samsung developed phones for different operating platforms such as Symbian, Android and Windows Phone, as also the proprietary 'bada' platform.It turned out to be the biggest gainer on the Android platform.The appetite in India for Androidbased phones became quickly clear in June 2010 when Samsung decided to launch its Galaxy phone. Nokia's smartphones were heavily affected in the market, the Apple iPhone was hardly here, and BlackBerry did not have a great touchscreen device. Nokia's competing smartphones could not compete with Samsung's. It was not until February 2011 that a Finnish answer to the Galaxy came about in the form of the Lumia phone out of the Nokia-Microsoft tie-up in February 2011.

Phase II

Samsung was overtaken as the largest seller of smartphones in India by local budget brand Micromax for the first time in the year 2015.According to market research firm Canalys, Micromax accounted for 22% of India's smartphone shipments in the three months to December, Samsung's market share fell to 20%.Micromax had been faster than its competitors to improve the appeal of devices, for example, by including a wide variety of local languages on its Unite phones vital to success is selling these handsets at low price points to appeal to the bulging mid-level income market in India. What Micromax did that others didn’t do is to design, build and sell its handsets with the Indian consumer firmly in mind.While most global brands design for many markets to benefit from scale, Micromax took pains to understand that Indians want greater personalization in their devices.

Phase III

The rise of Chinese smartphone brands raised alarming concerns for the Indian smartphone in the current years since the Chinese brands which had around 7% market share in the first quarter of 2014 now have almost 51% market share as of first quarter of 2017, as per data shared by Counterpoint.Indian smartphone brands on the other hand have witnessed a steep fall where they once ruled the market with 49% share in 2014 which has now declined to 16% in 2017.With the help of both offline and online channel push, Chinese brands have been able to get 51% of the smartphone sales in a matter of 3 years.

The Change in the Indian consumer preferences

Evolving nature of target segment customers Since the beginning price has been dominant factor to influence purchase intention of consumers. One judgment for this can be that Chinese phone in India are offered at lower prices which are more affordable by middle income group consumers. Also, these days more fashionable and trendy models are offered in the market so people have a tendency to change their phones in a year and so they don’t feel like spending much on their phones in one time.These factors strongly appeal to large sections of the population, especially the youth, that are gaining their footing financially and growing into power smartphone users. Furthermore, the features in premium segment smartphones such as full-screen displays, biometric security, dual-cameras, faster processor and support for artificial intelligence have acted as a catalyst for consumers looking to upgrade.

Consumers from Tier II and Tier III cities and rural areas The consumers from these places have lately been introduced to the concept of data consumption through phones due to the introduction of Jiophones and free data connectivity. There have been certain misconceptions regarding smartphones and data consumption which are slowly and steadily evaporating as consumers from these parts are evolving into more informed smartphone users.This is a highly potential market for all players which are looking for value for money.

“Country of origin” agnostic customers Even after the Doklam issue between India and China, it can be seen that those consumers think that the sales will be affected have tried to boycott Chineseproducts but this cannot be completely done as no other alternative to these Chinese brand products are available that too at such low cost. Purchase behaviour of Indian towards Chinese product is fairly more inclined due to psychic distance factors as culturally Indians are more nearer to Chinese due to proximity of religion and culture. The country of origin of a product affects purchase decisions because consumers tend to infer the quality of a country's products from its national image. Majority of Indians have purchased Chinese products. It is possible due to Chinese products available at affordable price. Indians perceive Chinese products as low priced with value for money. They are purchased mostly by younger population of age group below 35 years. Price is single most important point in decision making process by consumers in India followed by quality and functionality of the product. Though the "swadeshi" card has played well in the consumer goods segment the same cannot be replicated in the consumer durable markets.

Changing perceptions towards "Chinese Products"Brands such as oppo,Vivo etc have helped change the perception of Chinese brands, which were earlier perceived to be of inferior quality. Their product quality was good and they launched unmatched specifications at aggressive pricing. Consumers in India realised that the quality of Chinese products was far better than the ones they got locally.A key reason for the growth of Chinese brands is their affordable offerings with stand-out features, including strong design language

The reasons for the tectonic shift

Shift from 3G to 4G: The main reason behind the fall in race for Indian brands, however, is the failure to gauge a fundamental shift in the market—when India suddenly moved from 3G to 4G in a matter of months and Reliance Jio changed the game completely. The Chinese firms were already coming from a 4G-dominant market and could bring their 4G-enabled phones to India. When Reliance Jio forced telecom players to adopt 4G connectivity and voice-over LTE (VoLTE) calling, Chinese phones were already ready for it. This was something that hit all Indian players, and since the market leaders could not fulfill the consumers' demand for 4G-enabled devices, a huge gap was left to be filled. Their Chinese counterparts duly capitalised.

Handling the distribution channel Chinese firms gamed the distribution ecosystem well, even while treating both offline and online channels on an equal footing. Chinese brands continued to improve on the channel front with new experiments, and introduced innovative channel finance models in order to build trust among the involved partners. Oppo and Vivo were not just paying for Indian Premier League (IPL) advertisements and sponsoring the Indian cricket team, but also paying a lot of money to retailers who would put up their boards; give their products prime positioning; or sell their devices exclusively. Xiaomi, Vivo, and Oppo give targets to distributors that are based on volumes. Instead, a brand like Samsung gives targets based on value. Retailers could make easy money from Chinese brands by showing the number of devices sold, while a brand like Samsung demands that they sell phones worth a particular amount. In a market that mostly buys cheaper phones, achieving value targets, like that of Samsung's, are more difficult. Some Chinese brands offer ₹ 150 per unit sold as an incentive. This could go up to above ₹ 200 per unit, depending on how expensive the phone in question is.

Innovative promotional techniques Chinese brands are outspending local players when it comes to promotions especially with brands like Oppo and vivo which are extensively doing promotions in cricket and Bollywood. While vivo had an advertising spend of $ 78 million in 2016, Oppo had spent $66 million on advertising last year.Domestic players like Mircromax, Lava and Intex on the other hand had humble spends which could not exceed $30 million individually in 2016. Xiaomi was the first brand which launched a flash sale in India and the concept became an instant hit, and Xiaomi grew as an online brand. On the other hand, brands like Oppo and Vivo, took the offline route "pumping a lot of money in retail channels and promotional activity". Typical offers include trade-ins and buybacks, monthly 0% EMI (monthly instalment plans) and instant cashbacks.

Controlling the entire Value Chain Chinese brands enjoy economies of scale due to their strong presence in their home market which allows them to keep the price low in the Indian market. Meanwhile, international giants like Samsung, Xiaomi, Oppo and Vivo have been pumping money into India, the second largest market for smartphones, to boost capacities of factories where their phones are assembled. Chinese player and rival Oppo is also supposedly holding talks with component makers about opening units here for its upcoming industrial park in Greater Noida. The expansions are sure to draw in more Korean, Chinese and Taiwanese component makers to set up shop in India and kick start a components ecosystem as there is already increasing interest from them.

Creating the pricing barrier through value for money; According to Counterpoint's data, Rs 8000-Rs 15000 is the most popular price band in India where Rs 8000- Rs 10000 constitutes 25% and Rs 10000 to Rs 150000 has 30% share among the various price bands. Interestingly, the Rs 8000-Rs 15000 price band is dominated by Chinese brands such as Xiaomi, Oppo, vivo and Lenovo together capturing 49% share.

Strategies for the "Future"

Focus on Manufacturing; India has recently toppled Vietnam to become the second largest mobile phone maker after China. Thanks to the Phase Manufacturing Programme (PMP), the country is home to 268 mobile phone assembling units, according to India Cellular and Electronics Association estimates. However, India still relies on imported parts from China for the assembly because of the lack of an ecosystem of component manufacturers here.In July, Korean smartphone maker Samsung set up the world's largest mobile phone factory in Noida. Recently, China's Vivo said it will invest Rs 4,000 crore over the next four years to set up another factory in Uttar Pradesh. Till March 2018, Vivo invested over Rs 200 crore more to set up a surface-mount technology unit for PCB assembly Vivo has reportedly said they are keen on expanding into component making soon.The Indian manufacturers also need to cash in on these opportunities and ensure that they are not left behind in these endeavours.

Underpenetrated market;Despite being the second largest smartphone market in the world after China with more than 430 million users, India is under-penetrated compared to many other markets. Smartphone users account for just 45% of the potential total addressable market in the country. The unintended side-effect of the disruption unleashed by Jio, which caused the temporary downfall of the feature phone, has been the massive expansion in the market itself. Many of the first-time mobile internet users may get on board via the feature phone—the erstwhile forte of the likes of Micromax and Lava.Feature phone is also a segment where Indian brands never really lost their presence completely. In fact, in December 2017, Micromax claimed it had sold three million handsets under its Bharat range of cheap smartphones.The launch of the Jiophone2 and Airtel's nascent plans to launch its own low-cost device means telcos may be on the look-out for a number of tie-ups with phone makers.

Get the Pricing right If Indian brands want to survive, they need to capitalise on the opportunity that the sub-₹5,000 segment offers. Currently, no player dominates that segment and China-based sellers are also not focussing on this segment. These consumers need a device priced at ₹3,000 but also a device having good quality. Handset makers may look at bundling smartphones with operators such as Airtel and Reliance Jio, wherein there is an upfront subsidy on the device with a lock-in period of a year or two

Get back a hold on distribution For Indian brands to succeed in the game, they will have to become vertical integrated and focus on R&D to succeed in the long-run.Though Xiaomi is the top brand in India, it is still quite weak in terms of distribution channels. There are rumours floating around in industry circles that Xiaomi executives had met with Micromax to buy out its once-strong retail presence, and use that to its advantage.The concept of “preferred" or “exclusive" retailers is also dying. In this, brands like Oppo, Vivo and others would prioritise shipments to retailers who chose to sell only their products, and incentives would also differ.

Focus on latest government initiatives With the new FDI rules in e-commerce not much of discounting will happen — that is the mandate from the government, so that there is not much disparity in offline vs online. Since the launch of ‘Make in India’ in 2014, more than 50 new manufacturing facilities have been set up in India as compared to just 2 in 2014. There is a lot of uncertainty around India's duty structure for mobile phones. The issue has been raised in the World Trade Organisation and the US has taken a stand as far as duty is concerned. If there is clarity that this duty is here to stay, say, for at least five years, big-ticket investments in component manufacturing will start coming in. After that, the ecosystem will develop and the duty protection won't be needed anymore. The PMP levies duty on key mobile parts in phases to curb import of components and localise them. So far, a basic customs duty (BCD) is levied on batteries, chargers and adaptors etc.

Diversification of product portfolio Most technology companies — both local brands and Chinese players — have also started diversifying into other electronic devices such as TV and air purifiers. Here too, Chinese players may be able to beat the local brands. It is all about establishing yourself as a lifestyle brand. That is what Xiaomi is doing or what Samsung has done. It may be easy for Xiaomi to sell smart TVs because people now know about it as a technology brand which is good on the pocket and has good specs. If people know phones of a particular company are not of good quality, how do you expect them to buy their TVs? So, perceived value of brand is important

Conclusion

The Indian market presents a great opportunity to all international brands of handset manufacturers to profit from this emerging set of consumers. We can see from the history of the handset markets that predominantly companies from outside India have ruled the market.It was only in 2014 the homegrown brands such as Micromax got an opportunity at the top slot.However they have been overthrown by Chinese competitiors on the basis of superior technology as well as deep understanding of Indian consumers. The Indian consumer has heavily evolved and is not averse to experimenting with different brands but will not settle for anything that does not give value-for-money. The government is also keen to promote manufacturing and also bring in parity in competition.It is now imperative for Indian brands like Micromax, Lava and Intex to take formulate a strategy for their comeback.

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