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A few years ago I moved from FMCG to Consumer durables and that started a process of immense learning and coming to grips with very different business models. I saw many similarities but four fundamental differences between FMCG and Durables.

My first lesson was about Innovation. Innovation and disruption is almost a daily phenomenon in the durables business. If one looks at fmcg categories, each category has gone through possibly six technology or innovation disruptions in the last 100 years. If you take oral care, oral strips in the 1990s, tartar control in the 80s, fluoride in the 70 s, would be the big ones, going back more than 50 years, the oral care innovations came through packaging and improving sensory delivery. FMCG marketers rely on packaging, sensory and concept change to keep the brand alive. Leaders tend to stay leaders for decades. This is a luxury that doesn't exist in the durables business. There are three cycles that one needs to stay on top of – the Technology cycle, the Form cycle and the Consumer cycle. The best of technology companies have missed a technology cycle that usually puts the brand back by a few years. An innovative firm like Sony missed the TV flat panel cycle and have come back only in 2006. Kodak, the leader in imaging missed the digital technology cycle.

The second learning was around pricing. . Prices in durables erode every month and every year as the large players in the industry cut product cost down by pushing scale. Price erosion has a direct impact on the way you think about costs. One realized that a business had to keep fixed costs low and convert as many fixed costs into variable cost as possible. Capital engagement has to be low, Inventory is a bad word. A significant part of a winning strategy and profitability revolves around keeping a trim supply chain. The challenge marketers have is to judge what the consumer is willing to pay for features. There is a nuclear arms race for superior features in every durable. What's important and what's not is not really understood in the durable circles. Pricing in FMCG is far more stable, consumers pay for the emotional surplus that the advertising aims to build. Easy interest finance has played a crucial role is getting durables into the urban households. Small town and rural easy financing is done by the durables trade at this point.

The third lesson was around Trade Concentration and distribution. FMCG categories are distributed in millions of outlets and trade concentration is relatively low. Consumer electronics are available in about 40,000 outlets, the best distributed being DVDs and Color Television. The durables business has strong local chains. These local chains have established a strong bond with their consumers over the last two decades starting by selling an iron box or a ceiling fan. These chains wield considerable influence over both the consumer and manufacturer. The reason they wiled influence is simple – In the FMCG sector, the role of retail is to stock and make a brand visible since advertising does the rest. In durables however, the retail point is likely the first source of information on product features, it is the place to experience the product and the feature, and it is also the place where the consumer goes back should she have a problem with her product. Managers coming from an FMCG background tend to underestimate trade influence in durables.

The fourth learning was around service. There is no concept of service in FMCG, in durables service network is possibly as important as the brand and determines whether a brand gets recommended by trade. The durable managers understand the role of service well. If we reflect , it is not surprising that FMCG brands which have forayed into providing consumer service or experience have not really done well, because they still tend to think product and advertising.

Those were four fundamental differences. Rounding off, one would say that in durables, there is not a direct correlation between volume growth and profitability. Durables have a strong second hand market and that drives pricing, distribution and innovation strategy. Disruption in FMCG tends to come from superior advertising. And in a few cases, pricing. Disruption in Durables comes from technology, trade and constant price erosion. FMCG businesses seem like a walk in the park compared to durables !!