

De-Mystifying the Indian Aftermarket

In the aftermarket Industry, India is an “unknown quantity”. With 1/6th of the World population, an enviable 7 -8% GDP growth, 250+ concurrently growing cities, India is on the radar of every OEM and Supplier of aftermarket consumables. But virtually all companies vying for a slice of the Indian market are struggling with the approach that they need to adopt for the Indian market.

The Indian aftermarket, like many developing markets, is very fragmented. There are hundreds of small stationers, “Pop & Mom” stores, and roadside refillers vying for the business of a very price sensitive customer. With very poor statistical data on the actual market size and even poorer statics on the share of the aftermarket (Reman & refill) in the entire pie, the jury is still out on what is the total market size (Figures range from 2500 to 3500 crores) as well on the percentage of the aftermarket (Again figures range from 30% to 50%).

The only thing that can be said with certainty is that the market is huge, growing exponentially and there is a thriving reman/refill aftermarket but largely unorganized with severe quality issues.

If we look at the global aftermarket industry over the last decade, India is standing today where Brazil was 4/5 years ago. Both belong to what is termed as “BRIC” group (Brazil, Russia, India, China) and it is safe to assume that India would also mature over the next two to three years and become a significant market which cannot be ignored.

The signs are already visible with parts of the Industry getting organized. A few Franchisee models already active in India which is the first sure sign of a market maturing. In the last 2 to 3 years, these Franchisee models have managed to set up around 200 to 250 stores collectively and if we one were to compare this with similar franchisee operations in other countries, the pace at which these have come up would be far higher than any other country. However, given the “price sensitive” nature of the Indian consumer, and the unhealthy competition from the innumerable small refillers across India, how successful these franchisees will be vis-à-vis their overseas counterparts has still to be seen.

There is also a move by many small players in the Industry to get more professional and organized. The majority of these players are erstwhile ribbon manufacturers or importers and suppliers of Cartridge consumables who are reinventing themselves to increase their revenues by getting in organized remanufacturing. Some of these enlightened players have also gone in for STMC certification although these can are just a handful presently.

These are small, yet very significant steps in the evolution of the remanufacturing industry in India.

International players in the Reman industry have been flirting with India for the last 3/4 years. They have been experimenting with different approaches to penetrate the market with mixed results. The most common approach and also the most logical has been to appoint a distributor. But in the absence

of any national size player in the distributor business, the penetration by these distributors has been mostly regional. To tap the PAN India market, some overseas players have tried to appoint multiple distributors. But this has led to competition in their own products, there being no clear demarcation of markets amongst distributors. Some distributors have resorted to unhealthy practices like pawning off sub-standard products under the label of respected manufacturers, creating a bad reputation for the branded products. Frequent changing of distributors has added to the market being in a confused state. Manufacturers have even resorted to selling through distributors as well as directly, undermining the authority of their own distributors. The manufacturers need to have a very clear cut and consistent policy to send out the right signals to the market if they have to succeed.

The OEM's have launched a huge number of printer models in India over the last 3 years to cater to various segments and take advantage of the blistering pace of growth in the Indian economy. This requires distributors of parts, toners and inks to stock a large number of SKU's in small quantities. Since these distributors are small and their market coverage is limited, they are unable to stock all the SKU's leading to a constant gap between demand and supply.

Very few international manufacturers of Aftermarket consumables have really tried to establish their own direct presence in India or open depots in India to cater to the huge number of small aftermarket players.

This has spawned a large no of Importers who import in Bulk from various overseas consumable suppliers and retail locally giving long lines of credit. Once again due to the price sensitive nature of the market and the lack of any quality control, different grades of products are available at different price points. The local companies have no option but to buy whatever is available to meet the immediate demand. The consumables that are entering the Indian market are from "reputed" as well as "not so reputed" manufacturers compounding the "Quality" problem and giving the Reman industry a bad name.

The end result is that the end user never gets a consistent quality of the Toners and Cartridges as the parts, toners and inks in the end product keep changing.

The India consumer is, therefore, a very dissatisfied consumer.

The OEM's and the remanufacturers co-exist happily at the moment. There is no single player in the Reman industry who can create a large dent in the OEM market share of the aftermarket. At the same time the OEM's understand that the retail consumer will at some point or the other shift to the reman aftermarket. The OEM strategy is to tap the Quality conscious Enterprise customer and leverage their International relationships with the MNC customers to retain market share. They are happy pushing the Printers to the retail customers (Individual, SOHO & SME) through the Retail chains that have sprung up and grab whatever consumable business the SOHO, SME and Individual customer push their way. The OEM's are also happy to leave the servicing of old and obsolete printer models to the fragmented refilling industry as they no longer want to service the same.

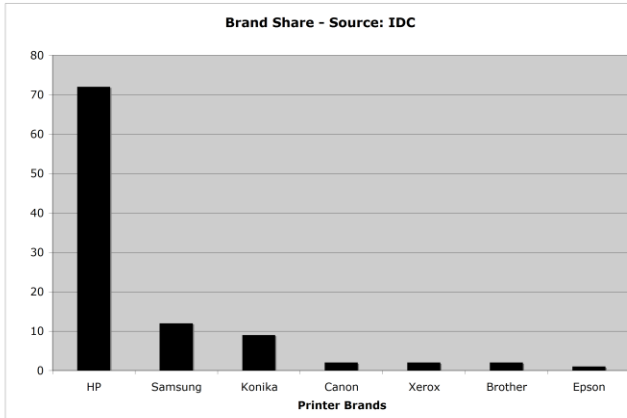
But India is poised at an inflection point. The slowdown from October 2008 has actually given a boost to the Reman industry India. Die hard OEM customers have been forced to experiment with the remanufactured cartridges to reduce their costs and several have made the switch for good. We are seeing more and more customers making this switch. The number of organized players is also growing and the awareness and visibility created by the Franchisee chains have fuelled this process.

For the Indian market to mature faster and for players to tap into this golden opportunity, there are certain things that must happen:

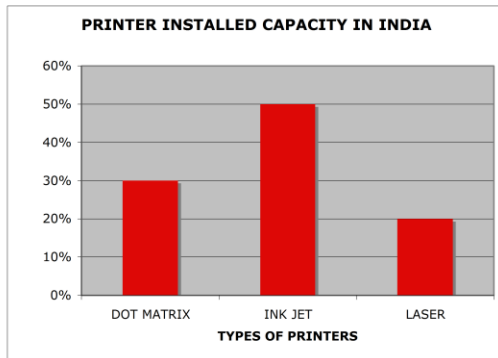
- International players must set up a direct presence in India
- Depots must be set up at least in the four key regions to cater Pan-India
- There needs to be training and education given to local refillers to significantly improve the quality and thereby the market penetration.
- The Industry needs to come together on a single platform (Current there are multiple groups) and work towards growing the market as a whole rather than their own individual business
- The “trader” mentality that exists today amongst the players must be replaced and they must start visualizing themselves as serious “remanufacturers”.
- Unhealthy price competition as well as unhealthy trade practices must be addressed by the Reman association.
- The industry must take a leaf out of the functioning of developed markets as well as markets similar to India like Brazil, where getting organized has delivered a huge upside to individual companies as well as the Industry as a whole.
- The local reman industry needs to adopt certain standards of manufacturing as well as ethical practices.
- There is a crying need to collect accurate market data to help the industry target growing segments.
- The industry must have a very serious Exposition on the lines of Remax and Recharger and attract a lot of International companies to showcase their products.

How fast these changes will happen is anybody’s guess. But to ignore the Indian market is to ignore the biggest growth market in the Global Aftermarket.

The Printer Market - Key Facts



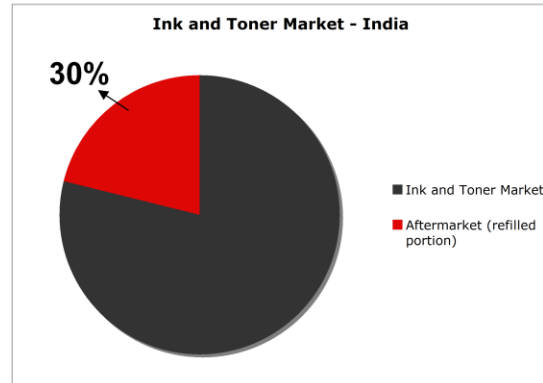
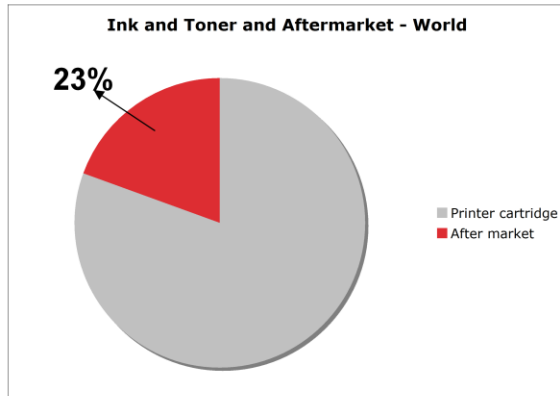
- Dot Matrix Printers replaced by Inkjet & Laser Printers.
- All-in-one printers & Multi-functional Devices (MFD's) gaining popularity.
- Total installed base of Laser printers is currently **3.5 Million**
- Total installed base of Inkjet printers is currently **5 million**



(Source: IDC, Dataquest and ReIndia)

India is at an inflection point for Printers

Printer Consumables - Cartridges



- Global Ink & Toner market to touch \$ 70 Billion by 2009 (**Source: Lyra**)
- Aftermarket (Refilled / Remanufactured portion) projected to reach \$ 17 Billion by 2009 (**Source: Lyra**)

Organized Refilling / Remanufacturing is less than 2% in India in the 30% Aftermarket

- Total Indian Ink & Toner market estimated at \$ 625 Million growing at 30% p.a. (**Source: Business India : July 08**)
- No. of Toner cartridges consumed - **4 million p.a.**
- No. of inkjet cartridges consumed - **7.75 million p.a.**
- Estimated Toner Market size - **\$ 310 Mn (1400 Crores)**
- Estimated Inkjet Market size - **\$ 175 Mn (800 Crores)**

Atul Tibrewala
Managing Director
Cartridge Junction (I) Pvt. Ltd.