

Industry Analysis

Appliances

Q4 2013

Industry Overview

The household appliances industry represents the essence of living in a modern household. The industry consists of manufacturers of major appliances (e.g., refrigerators, freezers, ovens and ranges, and washers and dryers). It also includes makers of air conditioners, microwave ovens, and dishwashers, as well as small appliances such as toasters, irons, vacuum cleaners, hairdryers, food processors, bread makers and coffee machines. Lawn and garden equipment manufacturers, and makers of power and hand tools made for the home, are also part of this industry. This is a cyclical industry, dependent upon consumer discretionary spending, and mostly in the mature lifecycle phase.

The household appliance segment is highly concentrated, with the major appliances market dominated by three global companies in the U.S.: Whirlpool (with 45 percent of the U.S. market in 2008, including Sear’s Kenmore brand), GE (24 percent), and AB Electrolux (16 percent, from Sweden, makers of Frigidaire), for a total core appliance market-share of 85 percent. In March 2006, Whirlpool acquired Maytag for \$1.8 billion, further consolidating the industry from four to three major firms. These three companies particularly dominate with major appliances, which are generally considered to be washers and dryers, refrigerators, freezers, dishwashers, and ovens and ranges. Air conditioners are dominated by LG Electronics, AB Electrolux, Whirlpool, and Fedders. Gas air furnaces are led by Carrier Corporation (subsidiary of United Technologies Corporation), Goodman Global (Amana brand), Lennox International, American Standard (Trane), and Rheem Manufacturing (subsidiary of Paloma Company).

The high fixed costs, from the expense of plants, maintaining and operating plants, and research and development (R&D), cause a need for a highly concentrated market with a handful of large players. Furthermore, buyers are large retailers with much buying power, which requires manufacturers to have size in order to exert pricing pressure on their suppliers. More competition in the U.S. is on the rise, from consumer electronics makers, like LG Electronics and Samsung Electronics, and from low-cost Chinese appliance manufacturer Haier. Furthermore, others dominate in various appliance segments, such as LG Electronics in air conditioners and Carrier Corporation in gas air furnaces.

Latest Activity. Mostly tracking consumer confidence and the housing market, the household appliances industry expanded rapidly in the 1990s, grew slightly during the recession years in the 2000s, then rode the wave of the housing bubble in the mid-2000s. From 2000 to its height in 2007, U.S. appliance sales grew from \$34.1 billion to \$45.5 billion. New sales, however, fell during the bursting of the housing bubble, falling to \$41.6 billion in 2009. Major appliance sales fell from \$36.3 billion in 2007 to \$36.3 billion in 2009. The federal stimulus plan, which encouraged consumers to purchase more efficient ones, had a positive impact on 2010. In 2010, U.S. appliance sales increased to \$43.9 billion, with major appliance sales and the employment picture have yet to significantly improve, which means consumer confidence to purchase them remains modest at best, particularly for major appliances.

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