

# India

Are Indian consumers living the 'luxe' life?



## India: Are Indian consumers living the 'luxe' life?

*What do you do if you are an Indian who fancies a Gucci bag or eyes those red Jimmy Choo shoes? A trip abroad is not necessary when all these luxury brands are now accessible in India. Now that luxury spending in China and Japan is slowing down, big brands are eyeing the Indian luxury market, which continued to grow at 30 per cent in 2013 to reach USD8.5 billion. It is expected to hit USD14 billion by 2016<sup>1</sup>. Is this just a fad or will India's luxury sector continue to power ahead?*

### India – The next hub for luxury?

*India accounts for close to one per cent of the global luxury market.*

India's luxury market is far from insignificant. According to one report, it was worth USD7.6 billion in 2012<sup>2</sup>. This contrasts with a figure of USD 18.7 billion for China (from a different source), and a global market of USD 1.1 trillion for luxury goods and services<sup>3</sup>. India accounts for close to one per cent of the global luxury market.

Luxury sales are currently seeing a slow-down in China and Japan. In China, a slowing rate of economic growth (which is now close to 7 percent a year, from 10 per cent previously) and President Xi Jinping's crackdown on official corruption and excess are weighing heavily on the luxe market. In Japan, after a burst of sales activity prior to the hike in the GST rate in 2014, luxury sales slowed. This has drawn more attention to India's luxury market potential.

Luxury in India has traditionally been associated with the royal dynasties of the Maharajas. Whether it was the Nizams of Hyderabad or the Rajputs of Rajasthan, luxury was exclusive to the elite. The lavish lifestyles of these

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<sup>1</sup> India Luxury Summit 2014, KPMG and ASSOCHAM India, 2014

<sup>2</sup> India a budding sourcing hub for global luxe players, Fashionunited Group, 25 October 2012

<sup>3</sup> Luxury-Exclusively for Everybody, The Economist, 13 December 2014

aristocrats were exclusive to the privileged class – who not only inherited wealth but had an inclination towards luxury<sup>4</sup>.

***Luxury goods in India are also perceived as an investment and a hedge against possible future economic, banking or currency instability.***

The demand for luxury goods in India has cultural roots. It is tied to the traditional Indian custom of personal adornment, which fuels demand for luxury accessories, jewellery, timepieces as well as designer clothing and footwear. Moreover, luxury goods in India are also perceived as an investment and a hedge against possible future economic, banking or currency instability. Add to that a youthful demographic and burgeoning middle-class, and you have the perfect recipe for growth<sup>5</sup>.

### **What India has to offer**

Among luxury brands present in India, anecdotal evidence suggests that Fendi, Burberry, Bottega Veneta, Paul Smith, Jimmy Choo, Louis Vuitton and Roberto Cavalli are increasingly popular among the upper-middle class and people with fast-growing disposable incomes. Luxury consumers in India have now become more open to new luxury brands and products to enhance personal value<sup>6</sup>.

Needless to say, India has been warming up to global luxury brands for quite some time now. Several factors explain this.

### **A growing potential customer base**

India boasts of being the second-fastest growing large economy in the world after China. It has a growing number of billionaire's – 55 in the Forbes Billionaires List 2013, contributing a total of USD194 billion to global billionaires' wealth<sup>7</sup>. This has been boosted by a new class of wealthy consumers termed as 'closet customers' – those who are cost conscious

<sup>4</sup> Redefining luxury market in India: Contrasts, contradictions and extremes International Journal of Research in Business Management Journals, Neha Bothra, November 2013

<sup>5</sup> Ibid

<sup>6</sup> Luxury Brands Gaining Ground In India, Business Insider India, Preetam Kaushik, 9 April 2014

<sup>7</sup> The World's Billionaires, Forbes, 3 March 2014

and seek value – who have joined the traditionally rich to contribute to higher luxe sales<sup>8</sup>. The backdrop to all of this, of course, is rising income levels and aspirations<sup>9</sup>.

### **Internet retailing as another sales channel**

As Internet retailing picks up pace in India, international luxury brand owners have begun to focus on this channel for brand awareness. Alongside rising business operation costs and rental prices, the urgent need for skilled employees to cater to high net worth individuals is another factor that encourages luxury brand owners to increasingly make use of internet retailing services. Through this channel, discount and other promotional activities can be offered exclusively to subscribed online customers<sup>10</sup>.

### **Availability of luxury services**

The tradition of initially locating small individual sales outlets in luxury and 5-Star hotels seems outdated now. New luxury retail outlets are increasingly being seen across major cities. For instance, Louis Vuitton has opened five new stores since its flagship store was launched in New Delhi's Oberoi Hotel in 2003<sup>11</sup>. Swiss retail giant Richemont plans to invest USD25 million in India to set up single brand retail stores<sup>12</sup>.

### **Shoppers prefer India rather than going abroad**

Although India's share of the global luxury market is a mere one per cent or so, many luxury brands are keen to open up retail outlets. The rise of demanding customers – who are price-conscious as well as brand-conscious – continues to force luxury brands to move out of 5-Star hotel cocoons and into large malls. Companies such as Genesis Luxury – a

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<sup>8</sup> India's luxury market to cross \$10 bn mark by 2014: Report, The Economic Times India, 19 November 2013

<sup>9</sup> Ibid

<sup>10</sup> Luxury goods in India, Euromonitor International, March 2014

<sup>11</sup> Louis Vuitton looking for bigger brand play in India, Fashion United Group, 12 September 2013

<sup>12</sup> Swiss retail giant Richemont plans to invest \$25 mn in India, Rediff, 8 August 2013

pioneer of luxury retail in India – has brought in labels such as Jimmy Choo, Burberry and Bottega Veneta, to name a few. Until late 2013, the company had a total of 47 stores for 14 luxury brands across 5 cities<sup>13</sup>.

### **An up-and-coming luxury manufacturing hub**

The production of luxury products in India was worth USD500 million in 2012<sup>14</sup>. Many global luxury brands such as Louis Vuitton have started setting up manufacturing facilities in India to manage the cost of serving the Indian market<sup>15</sup>.

### **Where do the opportunities lie?**

The growth of the Indian luxury market is at a nascent stage but is driven by an increasing base of customers from high-net worth households (HNHs). With an expected compound annual growth rate (CAGR) of 27% per cent throughout 2017 to 2018<sup>16</sup>, what sectors promise to deliver?

### **Apparel and accessories<sup>17</sup>**

The Indian Government's foreign direct investment (FDI) policy, launched in August 2012, welcomed many foreign multi-brand retailers in India. This permitted 49 per cent of FDI in supermarkets and department stores as well as 100 per cent FDI in single-brand retailing. It remains to be seen if this will be liberalized further under the new government of Prime Minister Modi.

For instance, American luxury retailer Saks Fifth Avenue entered the Indian market in 2014 after the change in government policy for FDI. Other players competing in the Indian market include Galeries Lafayette of France, London-based Harvey Nichols and US-based luxury retailer – Bergdorf Goodman.

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<sup>13</sup> Money can buy you luxe, Living Media India Limited, Shweta Punj, Manu Kaushik, 1 September 2013

<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> Ibid

<sup>17</sup> Saks Fifth Avenue renews interest in India's luxury market, HT Media, Sapna Agarwal, 5 March 2014

## **Perfumes**

India is also a high-potential market for perfumes. A case in point is renowned brand Titan, which also offers products like watches, jewelry and glasses. Titan entered the Indian luxury perfume market in 2013. The new range of fragrances offered were at a competitive price ranging between mass and premium brands in order to attract urban customers<sup>18</sup>. According to The Associated Chambers of Commerce and Industry of India (Assocham), the fragrance industry is expected to grow at an annual CAGR of 40 per cent<sup>19</sup>.

## **Fine dining**

According to a report in 2013, the Indian food services industry will see a growth rate of 11 per cent from 2013 to 2018<sup>20</sup>. More Indian restaurants continue to offer fine dining experiences for the upper class, such as the Indian Accent, Varg, Dum Pukt and so forth<sup>21</sup>. The global trend in luxury is for consumers to prefer unique experiences to physical goods as tastes mature. This augers well for the future of fine dining in India.

## **Automotive**

In 2014, India ranked 7<sup>th</sup> among the top 10 largest passenger car markets in the world. India's luxury automotive market is expected to grow at a rate of 20 per cent within the next 5-7 years<sup>22</sup>.

## **Real-estate**

A 2014 study showed that wealthy Indians spend 44% of their investment dollars in the real estate sector, while the global average was 24%. There is a tendency to purchase houses in big cities. India was considered as

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<sup>18</sup> Fragrances in India, Euromonitor , July 2014

<sup>19</sup> Luxury Products Like Fine Perfumes Resist Stormy Weathers, BusinessWorld, Kaveri Nandan, 23 September 2013

<sup>20</sup> The rise of the quick bite, Technopak, Reetesh Shukla, Vidul Sharma, retrieved on 10 December 2014

<sup>21</sup> Romancing the Palate, Business Today India, Goutam Das, 1 September 2013

<sup>22</sup> Luxury carmakers fighting for pole position in India, Zee Media Corporation Ltd., Vibhuti Jaitly, 29 July 2014

one of the top 10 nations eyeing luxury residential properties across the globe as well<sup>23</sup>.

## Challenges for India

While India's luxury market seems promising, it is necessary to assess the risks as well.

### **Lack of infrastructure<sup>24</sup>**

Infrastructure is one of the primary impediments that international luxury brands encounter in India. Luxury brands in India are usually restricted to malls, high streets and selective 5-Star hotels. Rental costs add up for retailers setting up stores in high streets. And these streets are often cluttered, undermining the retailer's ability to create an exclusive "luxurious" experience. Dedicated luxury retail areas like airports are still too few, though this is changing.

### **Restricted to major cities**

Besides good spaces, the outlets of luxury goods also need to be situated in places where customer demand and purchasing power is high<sup>25</sup>. This is the reason why most luxury brands have their outlets located in major cities only. There are only a handful of cities in India with a critical mass of high net-worth individuals. These individuals have investable assets worth over USD1 million and who frequently use luxury goods for personal needs and presents<sup>26</sup>. But the upside to that is that retail outlets in large cities also act as magnets to pull in small numbers of high net-worth individuals from smaller towns nearby.

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<sup>23</sup> Sotheby's International Realty Affiliates to sell houses in India, The Economic Times, August 2014

<sup>24</sup> Ibid

<sup>25</sup> Inside India's Challenging High-Growth Luxury Market, Luxury Society, 29 July 2014

<sup>26</sup> The Ascent of Money, India Today, Neelesh Hundekari, 9 November 2012

## Taxes

*Luxury goods in India still cost 20 to 25 per cent more than in Brazil, China, or London, as at 2012.*

High import duties (20-150 per cent) form another impediment for luxury retailers. Although the Indian Government launched a 100 per cent FDI policy for single-brand retailing in August 2012, high taxes on luxury goods remain. In fact, luxury goods in India still cost 20 to 25 per cent more than in Brazil, China, or London, as at 2012.

## Counterfeit goods

According to a study conducted in 2013, India's counterfeit luxury market is growing at a CAGR of 40-50 per cent. Moreover, the online luxury market is growing at a CAGR of 20 per cent. Furthermore, the rise of e-commerce in India is providing counterfeiters with a powerful new channel to promote and sell fake goods to consumers<sup>27</sup>.

## Lack of trained staff

Shortage of skilled labor for the luxury goods industry is a widely acknowledged problem among high-end Indian retailers. Luxury brands depend on their ability to “sell a story” to the consumer to justify the high price being asked – a story that explains the philosophy, people, heritage, quality and differentiating features behind the brand. A shortage of salespersons who can master this sort of knowledge and skill is a major constraint. Anecdotally, some brands operating in India face an additional problem from manufacturing staff who do not understand the heritage and legacy of the brand and are unable to execute the specific finishes involved in the manufacturing process<sup>28</sup>. However it is the sales function where the lack of skilled workers is most keenly felt<sup>29</sup>.

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<sup>27</sup> Fake luxury market to double by '15, The Statesman Limited, 15 January 2014

<sup>28</sup> India Luxury Submit 2014, ASSOCHAM India, December 2014

<sup>29</sup> Ibid

## **What lies ahead?**

India's luxury market is poised for growth. As the economy grows and as the middle-class becomes increasingly well-travelled and sophisticated, luxury goods will be more sought-after. Add to this the Indian tendency to invest in precious goods rather than simply piling up savings in the bank, a habit which has driven sales of gold for centuries, and you have the fundamentals for healthy growth.

Global luxury brands have invested in various industries which offer growth potential in India: apparel and accessories, perfumes, fine dining, automotive as well as real estate.

Many may view the luxury industry as somehow immoral due to its intrinsically inequalitarian nature. There is more than a grain of truth here.

But it should also be recognized that the luxe industry is a consequence of inequality, not its cause. Moreover, luxury goods and services create an avenue whereby the rich can channel their money into job creation and beneficial economic multipliers. Jobs in the luxury industry are well-paying and enable the transmission of good skills. The high margins of luxe brands also enable them to adopt more environmentally sustainable and fair-trade practices as opposed to large-format, mass-market retailers competing on price.

It is difficult to resist the conclusion that the Indian economy would stand to gain if shoppers spent their luxury goods dollars within India rather than going to London, Paris, New York, Hong Kong or Singapore to do so.

India's industry and governmental stake-holders would do well to unlock these economic benefits by helping luxe retailers to overcome the current

constraints of space, taxation, skilled employees and competition from counterfeits.