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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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**BOOKS**

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

# APPRAISAL OF INDIA'S LUXURY MARKET

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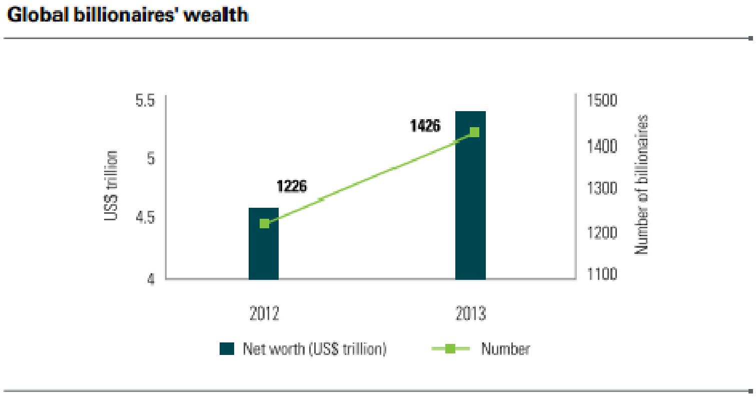
**ABSTRACT**

*Luxury as a concept is not alien to India. It has a long tradition of luxury consumption dating back to the 1900s with the maharajas who had a penchant for Rolls Royce coaches, suitcases from Louis Vuitton and bespoke neckpieces from Cartier. Throughout history luxury has played a significant role in society by being a clear indicator of social class. The market for luxury products in India is a gold mine. With a booming economy and its growth as an economic power to reckon with, India is the newest and most challenging target for luxury goods manufacturers worldwide. India is being viewed by luxury giants as one of the key markets from where future growth can emerge. India is home to some of the richest people in the world, with the fastest growing high net worth individuals (HNIs) in the Asia- Pacific region living here. The Indian luxury market is the beacon of the future, with a number of international brands vying to design, develop and deliver the high-end goods and services that India consumers want. To do so, they are being forced to build their distribution and to spur consumer interest in products that aren't familiar to many Indian shoppers. The paper seeks to understand the concept of luxury and analyse the luxury market scenario in India.*

## KEYWORDS
High net individuals, Indian luxury market, Luxury, Luxury market.

## INTRODUCTION
The global luxury market was quiet optimistic through the year 2013, a time when the global economic recovery had started in developed countries like U.S and there were positive recovery signals from Europe. In tune with this trend, 210 new entrants joined the growing Forbes Billionaire list and the wealth of the worlds richest grew by 17% as can be seen in figure 1.

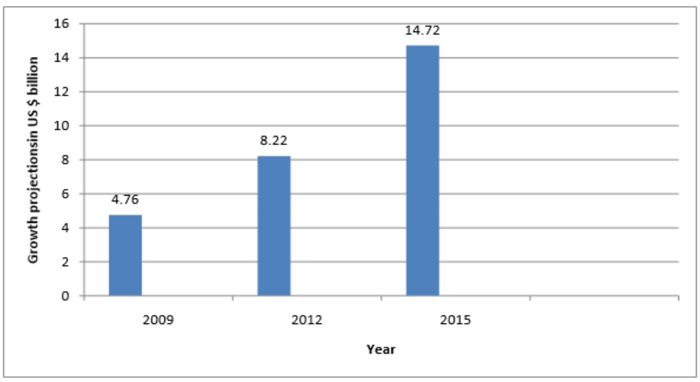
**FIGURE 1: INCREASE IN THE NUMBER OF BILLIONAIRES**




(KPMG –ASSOCHAM India Luxury Summit 2014)

India, with a contribution of 55 billionaires accounting for a total net worth of USD 194 billion, continues to hold its position in the global billionaire list. 2013 was marked by slowing of the Indian economy and diminishing consumer confidence but it has not had any impact on India's growing luxury market which grew at a healthy rate of 30% to reach USD 8.5 billion. According to a recent report by the Associated Chambers of Commerce and industry of India the luxury market is expected to grow at a healthy rate and reach USD 14.7 billion by 2015 (shown in figure 2) and includes products such as apparel, automobiles, yachts, fine dining, travel, hotels and spas, jewellery etc.

**FIGURE 2: GROWTH PROJECTION OF THE LUXURY MARKET**

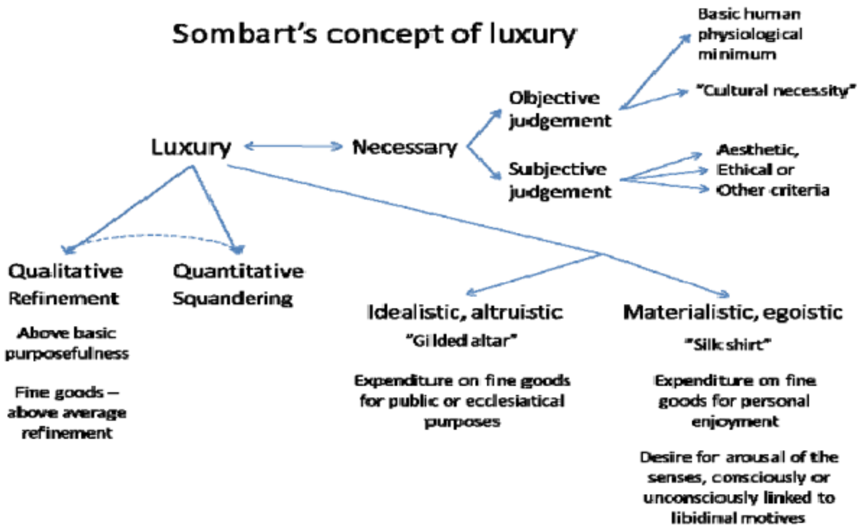



(KPMG ASSOCHAM India Luxury Summit 2014)

## CONCEPT OF LUXURY
Since the beginning of civilisation the notion of luxury has been present. The role it has in the society was just as important in ancient eastern and western empires as it is in the current scenario. In the earlier civilisations, there was a clear difference between the social classes and the consumption of luxury was limited only to the elites. Moreover, it meant that the definition of luxury was fairly obvious. Luxury was identified as whatever the poor cannot have and elite can.

Many researchers have tried to define luxury, but still haven't arrived on a common definition of it. Luxury can be defined as anything that is desirable and more than necessary and ordinary. In the 'Fable of Bees', Mandeville proposed that luxury is everything that is not immediately necessary to make man subsist .Werner Sombart defines luxury as any expenditure that goes beyond the necessary. He further distinguishes between two senses of luxury-quantitative and qualitative as can be seen in figure 2. In the quantitative sense he associates luxury with squandering by illustrating that luxury is when you hire 100 waiters for a job when only one waiter can do that job or you use three matches to light a cigar when one can do the task. Luxury in the qualitative sense means the use of better or more refined goods. Refinement according to him exists when the manufacturing or preparation of any item exceeds basic purposefulness. Also refinement can move in two directions-material and shape. Since most consumer goods belong to the refined category, so we can think of luxury goods in a narrower sense as being above average refinement. Also quantitative and qualitative luxury can appear together.

**FIGURE 3: SOMBART'S CONCEPT OF LUXURY**




(Csaba, 2008)

Sombart has suggested another distinction of luxury- idealistic or altruistic luxury and materialistic or egoistic luxury. Idealistic luxury refers to expenditure that is made on finer goods for public or ecclesiastical purposes and provides gilded altar as an example. Materialistic luxury which increased greatly during the Renaissance period is more personal form of luxury that is meant for enjoyment of sensory pleasures such as a silk shirt.

Arjun Appadurai in his essay "The Social Life of Things" proposed that luxury goods should be understood as "incarnated signs", whose predominant functions are rhetorical and social. He proposed that any good can move into a luxury register and be consumed as luxury good if it has the following 5 characteristics as shown in figure 4

1. Restriction to elites by law or price
2. Complexity of acquisition – which may or may not reflect real —scarcity
3. Semiotic virtuosity
4. Codes for "appropriate" consumption demanding specialized knowledge
5. High degree of linkage of their consumption to body, person and personality

**FIGURE 4: APPADURAI'S LUXURY REGISTER**


(Csaba, 2008)

Appadurai argues that some or all of the attributes must be present for something to be understood as a luxury, but otherwise offers limited explication and qualification of his scheme.

## INDIAN LUXURY MARKET- A MARKET OF CONTRASTS

The luxury market of India is different and unique as compared to that of other emerging markets. Traditionally luxury was associated with the royal dynasty of Maharajas. It was exclusive and only in the hands of the elite who along with acquiring wealth also acquired an inclination to obtain the finest products available. Today, luxury consumption has expanded and is no longer restricted to those belonging to the privileged class. It is now consumed by the masses, that is, the aspiring middle class which consists of entrepreneurs, professionals and corporate executives. The McKinsey Global Institute "The Bird of Gold: The Rise of India's Consumer's Market" states that the Indian middle class will increase to 41% of the population by 2025. The rise of the masses is a symbol of a vibrant luxury market that surpasses India's old money. The luxury market is a market from Maharajas to Masses.

Traditionally luxury was perceived to be something that was prized, precious, expensive, distinctive, and unique. Now a new category of luxury has emerged known which includes products and services that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach. This category of luxury includes brands like Godiva and Starbucks that are accessible and affordable. Along with giving a unique experience to consumers they also act as stepping stones to higher- end luxury

Traditionally luxury was bought and flaunted in Metropolitan cities like Delhi and Mumbai. Today, however, the geographical reach of luxury goes beyond these cities. The luxury market has expanded from the "centres" of luxury into smaller cities like Chandigarh, Ludhiana, Ahmadabad and Coimbatore. It has become a universal phenomenon.

The young aspiring consumers of luxury brands in India yearn for western logos. The logos are representative of power. They signify that the owner has "made it" and has climbed the social ladder. But these consumers also want local relevance along with an international logo. They want the luxury brand to recognize the values of Indian heritage. The luxury consumers prefer a fusion of west and east such as saris by Hermès or the bandhgala by Canali

## CHALLENGES FACED BY LUXURY BRANDS IN INDIA

### LACK OF QUALITY LUXURY SPACE AND ENVIRONMENT

In India, luxury brands are primarily restricted to high streets, malls and countable luxurious hotels. At present, in India there are only three luxury malls, DLF Emporio in New Delhi, UB city in Bangalore and Palladium in Mumbai. High streets such as Churchgate in Mumbai are very crowded and cluttered and do not provide the exclusive ambience that luxury retail demands. Moreover, sky rocketing rental cost in these streets affects the profitability of retailers adversely. Modernised and dedicate retail areas in protected vicinities are required to help luxury retail flourish in India.

### LACK OF POLICY SUPPORT

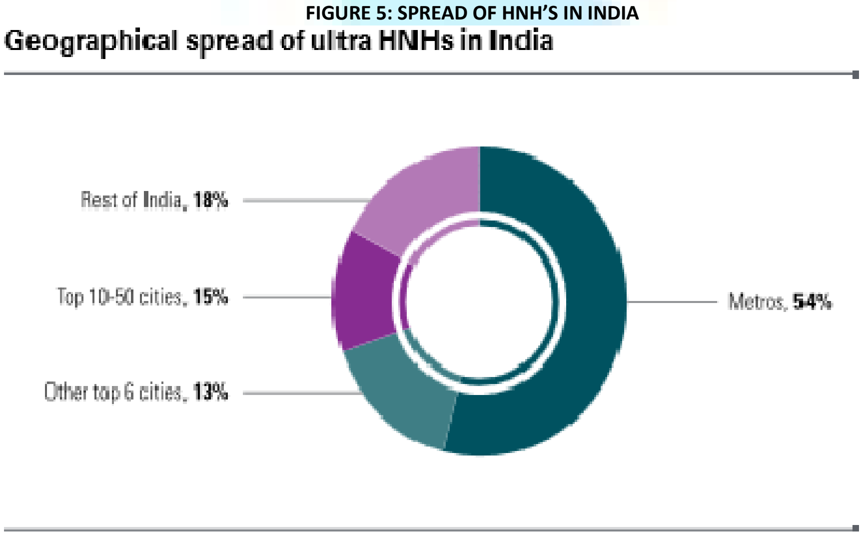
Despite an impressive growth of 23% in luxury market, the policies and regulations of the country are not friendly for luxury retailers. Import duties of 20 % -150 % are relatively higher when compared to other nations. This is the key apprehension factor among the international luxury brands thinking of entering the Indian subcontinent. Stefano Canali, the third generation heir of Italian luxury clothing and accessories brand Canali says "high import duty is one of the three major constraints slowing the growth of the $5.8 billion luxury market in India."

Liberalised FDI policy in luxury retail in November 2013l was considered a positive move for the luxury industry but some of the clauses such as 100 per cent FDI in both single and multi-brand retail requires 30 per cent of local sourcing are clauses luxury players find difficult to comply with.

### DIVERSIFIED AND FRAGMENTED CONSUMER BASE

The HNI consumers of India are scattered throughout the country and thus are not easy to reach. These consumers are not just limited to metropolitan cities but spread to tier II as well as tier III cities. As can be seen in figure 5, 46% of high net households (HNH's) are based in cities other than metropolitans.

**FIGURE 5: SPREAD OF HNH'S IN INDIA**




(KPMG- ASSOCHAM India Luxury Summit 2014)

HNI class of consumers can be classified into three broad categories- the inheritors who are traditionally wealthy and are habitual spenders; the professional elite who are discerning spenders and a large segment of business giants consisting of entrepreneurs and owners of small and medium enterprises who have the money but lack appreciation for luxury goods as they have no prior exposure to such products. To succeed in India luxury brands need to design their growth plans in such a manner so as to tap demand across all the categories of HNI's. Luxury brands need to expand the type and nature of product offerings along with an innovative marketing plan so that they can effectively tap the rapidly evolving behavioural trends of consumers.

### LACK OF TRAINED STAFF

Shortage of trained staff to sell luxury products is one of the major challenges that luxury brands face. Discretion and knowledge are two important things that staff needs to possess. The staff needs to understand that they should not stereotype customers on the basis of their appearances or the way they talk. Also they should not look unapproachable to potential shoppers.

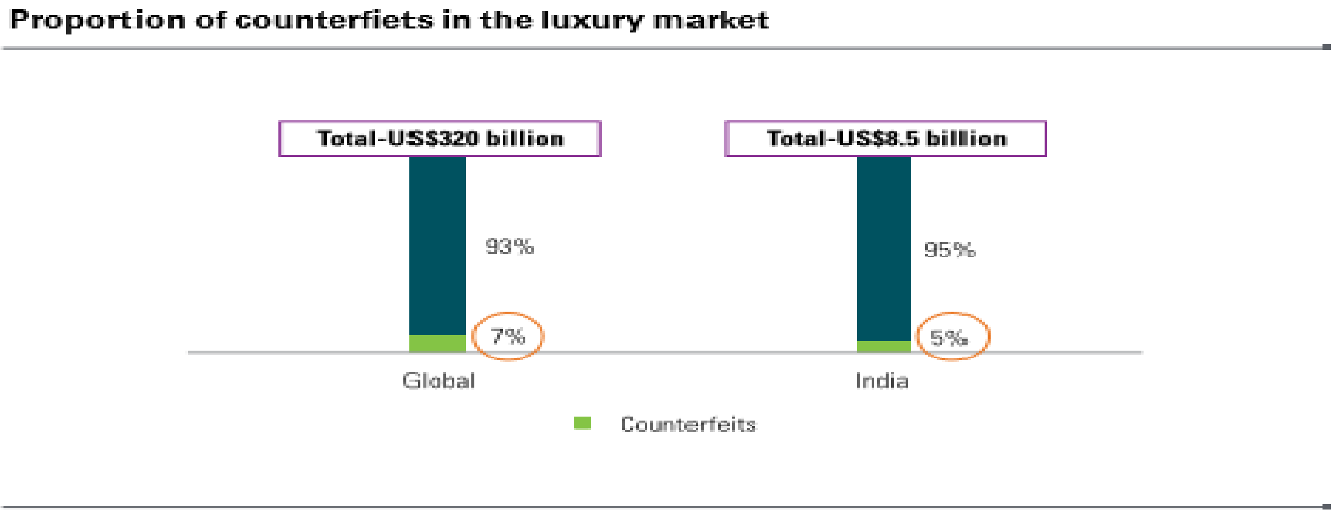
A number of brands have started their in-house training systems to train their staff in aspects such as etiquettes, visual merchandising and knowledge. The elements of such training programmes often borrow heavily from those of their global parent company. But due to differences in the profile of Indian consumers many luxury brands have indianised their training programmes to suit Indian shoppers.

### COUNTERFEITS

Counterfeits are fake replicas of real products that are produced with the intention of taking advantage of superior value of the imitated product. According to an ASSOCHAM-Yes bank study titled 'Indian Luxury CEO Survey' released in 2013 "the size of counterfeit luxury industry in India is currently about five per cent of the overall market size of India's luxury industry which currently is worth over $8 billion." (Figure 6)

In India, the counterfeit luxury products market is growing at an alarming rate of 40-45 % and is likely to more than double from INR 25 billion to INR 56 billions. Most of these counterfeit products belong to the apparel, perfumes and accessories segment as they can be easily placed in the gray market as they are low ticket items. In India, luxury brands face a number of supply side issues like legal loopholes pertaining to intellectual property rights, inadequate means to monitor various emerging channels, and a growing number of online portals. For tackling this issue, a lot needs to be done at the consumer ends to create awareness about original products. A large number of consumers in India have limited knowledge about luxury products and are potential consumers of these fake products. Brands need to collectively engage in creating awareness amongst the consumers. French law has made purchasing fake brands punishable. A person may incur a fine of up to EUR300000 or three years imprisonment. Moreover, an innovative campaign has been launched by French campaign wherein the government has collaborated with luxury brands and come out with taglines such as 'Real ladies don't like fake' and 'Buy a fake Cartier, get a genuine criminal record'.

FIGURE 6: COUNTERFEITS PROPORTION IN THE LUXURY MARKET




(KPMG- ASSOCHAM India Luxury Summit 2014)

## GAINING SUSTAINABLE COMPETITIVE ADVANTAGE

To counter the challenges that luxury brands face and to gain a sustainable competitive advantage the brands should follow the following steps

**GENERATE VISIBILITY**

Making the Brand visible is important to create credibility in the eyes of consumers and to ensure social acceptance. However, it is important that the luxury brand should be available to the right people at the right time and right place.

Audi member of the "German Big 3" luxury automakers unparalleled success in India can be partly attributed to its broad aspiration appeal through its association with Bollywood. Audi is extensively recognized as the preferred choice of Bollywood via its ionic association with celebrities such as Amitabh Bachchan, Shah Rukh Khan and John Abraham.

Targeted visibility is of particular importance for high-end luxury brands to ensure that the brand is experienced in the desired environment. For example, Jaeger Le-Coultre sponsors prestigious polo tournaments while the Cartier 'Travel with Style' Concours d'Elegance is a heritage motoring event for those 'in the know'. Brand visibility is not just about brand awareness, but more about communicating the story of the brand.

**INTEGRATE INDIANNESS**

'Made for India' has already been recognized as a cornerstone of international luxury brand's strategy. Lladró, a Spanish porcelain home décor brand launched a limited edition range of sculptures of Indian gods that resonates with India's passion for celebration during its many religious festivals. The notion of Indianness, however, needs to go further than just putting an Indian print on a bag or collaborating with a local celebrity. A large number of cultures, languages, religions, festivals, colours and tastes make up this country. The brands need to understand the difference between the flamboyant nature of a Punjabi customer and the more reserved nature of a Gujarati, and speaking to each of them in the specific cultural register that they respond to. Indianness needs to be integrated across all touch points of a luxury brand experience. For example, when Bottega Veneta launched an India special edition Knot Clutch, a sterling plate was included inside it, specifying that the clutch was for India, but made in Italy.

**CREATE ACCESS**

Luxury brands cannot be successful until they build a bridge that connects the target market with the brand. This bridge can be created through *three Ps of access*: Physical, Price and Play.

Physical access is achieved by breaking down the physical barriers between the luxury brand and the consumer. For example, bypassing the usual hotel arcades and luxury malls, Hermès opened a stand-alone store on an Indian high street in 2011.

Price access enables consumers to access different levels of luxury that correspond to differing levels of sophistication and ultimately price points. For example the world's biggest champagne house, Moet Hennessy, has launched its first "made in India" sparkling wine, priced at Rs 1,200 and Rs 1,400, as it seeks to capture a young, urban and increasingly sophisticated market of drinkers on the subcontinent. The company has been selling imported brands such as Moet & Chandon and Dom Perignon priced around Rs 5,800 and Rs 20,000, respectively for years, but the new launch is aimed at a vast population of young Indians who aspire to luxury brands, but don't necessarily have the budget.

Play access gives consumers an opportunity to experiment with luxury. Miele a Germany based high end domestic and commercial appliances manufacturer has set up an experience centre in Delhi that provides information, demonstrations and a complete Miele experience to its prospective consumers.

## CONCLUSION

India is on its way to becoming the world's major economic power and a force to reckon with. Globalisation is blurring boundaries and bringing people and cultures together. It has also fuelled the demand for luxury products in India. International luxury brands face a number of problems while conducting business in India but none of them are insurmountable. To fully adapt to the Indian market the international luxury brands need to modify their business model. Only those companies that keep their ears open to each and every word of their consumer will be able to succeed. In the luxury market, no business can afford the luxury of treating its consumers as a loosely bunched segment.

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