Luxury Daily®
The News and Intelligence You Need on Luxury

COLUMNS

How luxury brands should target India's super-rich

March 11, 2016

Etro paisley: Designs on India

By Abhay Gupta

Despite the economic slowdown across the world, the size of the global luxury market is estimated to be around $2 trillion. The BRICS markets, more specifically China and India rather than Brazil and Russia, have been in the spotlight for the past few years.

However, luxury marketers in China last year faced many challenges relating to luxury consumption, regulatory issues, tariff structures, currency reasons and a severe clamp-down on the gifting culture. Stores opened in a hurry by brands across categories began to shut shop.

As a consequence of the Chinese luxury pullback, the entire global luxury industry was severely affected. All brands once again are back to devising a fresh strategy for future growth.

Abhay Gupta is founder/CEO of Luxury Connect and Luxury Connect Business School

India: Best of BRICS
A quick analysis across the BRICS nations finds that :

In Brazil, the economy is in recession. There is no clear revival visible as of now.

Russia is the worst-affected of the lot due the commodities slump and drop in currency.

China is battling a growth slowdown.

In South Africa, the economic growth has decelerated steadily over the last few years. Industry analysts see limited growth potential.

India, alone, is expected to emerge as the world's fastest-growing major economy.

So is there an India opportunity for luxury brands ?

Growth projections
India's economy is much stronger now. The indicators are all favorable. The fiscal deficit, inflation index, current account deficit and the foreign exchange reserves are all healthier and growth-driven.

The percentage annual growth rates projections in India stand best in the BRICS region at 7.5 percent in India as against 6.3 percent in China, 2.1 percent in South Africa and almost negligible in Brazil and Russia.

Global status, brand value
India has been voted as the seventh most valued nation brand.

With an increase in 32 percent in its brand value to $2.1 billion, India has moved up one position in the most-valued nation brands list. Not only that, this surge is the highest among all the Top 20 countries on the list.

The nation brand valuation is based on five-year forecasts of sales of all brands in each nation and follows a complex process.

The gross domestic product (GDP) is used as a proxy for total revenues. Among the BRICS nations, India is the only country to have witnessed an increase in its brand value with Brazil, Russia, China and South Africa seeing a dip in their respective brand valuations.

In addition, India is the second most valued among these emerging economies after China, followed by Brazil, Russia and South Africa.

Indian consumer scenario
The Indian consumer has been divided into five different classifications.

While the top most of the pyramid, or the elite class, is just 4 percent of the overall population, the absolute numbers are far too attractive for any luxury brand to ignore. These numbers are expected to grow from current 10 million to 26 million households by 2025.

In addition, by 2025, the overall average household income is expected to multiply by 1.7 times. This, in itself, is an attractive proposition for any global retail brand.

Growth of HNIs and UHNIs
According to Credit Suisse's 2015 Global Wealth Report, India has ranked up in the list of Top 20 countries as the number of ultra-high-net-worth (UHNW) individuals rose by 100 people since mid-2014 to now stand at 2,100.

In addition, India is home to the fourth-largest population of millionaires in the Asia-Pacific region

Besides, it is estimated that India will witness a three-fold increase in HNI wealth through the decade. It is expected to touch $2.3 trillion in 2020, from $949 billion in 2010.

By 2020, the wealth of high-net-worth individuals (HNIs) in India will rise by 94 percent as opposed to China's 74 percent, providing attractive opportunities to luxury retailers.

Delhi and Mumbai (previously Bombay) will remain as India's richest cities in terms of millionaires' wealth concentration.

Significance of the Indian retail sector
The contribution to GDP by retail sector revenues in India is amongst the highest in the world.

For most developed markets, retail sector revenues are 15 percent to 20 percent of the GDP, while for India it is around 25 percent.

It is estimated that by 2022, the size of the retail market will exceed $ 1.2 trillion.

Indian retail sector: Digital influence
India is a highly digitally inclined nation. Digital influence and online purchase is projected to rise exponentially.

It is estimated that by 2020, approximately 350 million consumers are likely to digitally influence as compared to 150 million now. This will account for $240 billion to $250 billion, which is between 20 percent and 25 percent of the total retail spending.

It is also estimated that by 2020, 200 to 250 million Indians will shop online, as compared just 90 million currently.

Indian retail sector: Luxury segment

Overview

According to a research report by Euromonitor, India merely contributes 1 percent to 2 percent to the global luxury trade.

However, despite this insignificant percentage, the market is growing at a compounded annual growth rate (CAGR) of about 25 percent. The Indian luxury market is expected to cross $18.3 billion by 2016, from the current $14.7 billion.

As per a study by Assocham, in 2015 luxury jewelry, electronics, sports utility cars and fine dining have grown immensely. Apparel, accessories, wines and spirits are growing as strongly as in the past. Consumption of branded wine is also likely to post a more than 30 percent increase in the metro cities.

Significant brands across various verticals that performed well in 2015 included Gucci, Christian Dior, Louis Vuitton, Canali India, LVMH India, Judith Leiber, The SPA Group, Starwood Asia Pacific Hotels & Resorts and Reliance Brands.

Increasing brand awareness and the growing purchasing power of the upper class in tier II and III cities is fueling further growth.

Service areas such as fine dining, electronics, luxury travel, luxury personal care and jewelry saw increasing revenues and are expected to grow by 30 percent to 35 percent over the next three years.

Spending on luxury cars continues to grow at 18 percent to 20 percent over the next three years. As the purchasing power of women grows in India, the luxury beauty products market is witnessing a fast-paced growth.

Interestingly, three Indian companies have entered the Top 50 luxury brands of the world.

Ranked at 31, 42 and 44, respectively, these are Titan Company Ltd., Gitanjali Gems Ltd. and PC Jeweller Ltd. PC Jeweller Ltd. is also one of the world's 20 fastest-growing luxury goods companies.

There is a growing need for individuality and exclusivity as consumers get richer.

The size of the HNIs continue to get bigger and they spend more than 40 percent of their monthly income on some of the world's largest luxury brands whereas the middle-income group (MIG) consumers spend 8 percent to 10 percent of income on luxury products.

According to Cushman & Wakefield report, the luxury retail space in India last year increased to 1.44 per cent of the overall retail space as compared to 1 percent in the past.

Digital luxury in India

Given the wide reach of the digital medium and the very low entry barriers, luxury brands are beginning to expand their presence through the online space.

In the recent past, several portals have come up. Names such as RockNshop, Luxury station, Exclusively.in, Luxepolis and Darveys offer luxury goods sourced from various boutiques.

Pre-owned luxury is another fast-growing phenomena adding to servicing the aspirations of small-town luxury seekers.

There is money in the smaller towns and markets, but there is no access to luxury brands.

As Indians acquire global tastes thanks to affordable foreign vacations, the influence of Hollywood and Bollywood, and the Indian diaspora, they are looking to own foreign luxury brands.

Encashing on this sentiment, online fashion retailer Myntra sells premium brands such as Desigual, New Look, Furla, Superdry, Emporio Armani, L'Occitane in its portfolio.

The most recent addition is fashion house DKNY and The North Face.

Owing to the response of premium international brands, Myntra has revised its revenue target from international brands to 15 per cent of its revenues in the next 12 months to18 months, from the current 5 percent.

Indian luxury retail trends: Tier 1 cities

The key spending on luxury products is pre-dominant in the metro cities.

In 2015, Delhi ranked first in spending most on luxury brands, followed by Mumbai (2nd), Ahmedabad (3rd), Pune (4th) and Bangalore (5th).

However, spending on luxury goods has spread much beyond and across tier 1, 2 and 3 cities.

Ranking of India's leading luxury retail cities
Delhi National Capital Region: Has the most enriching retail legacy among the Indian cities, therefore the Northern Indian city tops all real estate drivers. Delhi, especially the National Capital Region, remains one of the strongest markets in terms of sale volumes for the manufacturers.

Mumbai: Mumbai, the nation's financial capital on the West Coast, has the highest retail demand potential. However, a lack of availability of land parcels leading to high rents in prime areas acts as a deterrent that causes Mumbai to lag behind Delhi.

Pune: Pune in Western India provides the most affordable rents in prime areas among the Tier 1, 2 and 3 tier cities.

Bangalore: Affordable rents in the city, compared to other Tier 1 and 2 cities, have helped retail to flourish. However, the Southern Indian city has lesser household expenditure even when compared to Kolkata (formerly Calcutta) and Chennai (previously Madras).

Ahmedabad: A cash-rich city, Ahmedabad in Western India saw increased spending on premium high-end offerings from global automakers. For Italian super-luxury sports carmaker Lamborghini, cities such as Ahmedabad have put up sales figures of six units in the last six months. These figures are significant because the Volkswagen-owned brand sold 16 units in 2014 as against 22 in 2013.

Chennai: According to Ajay Agarwal, managing director of Bergamo, "Chennai-ites are mature shoppers. They are well-travelled and not afraid to pay for quality." Chennai in South India embraced the concept of department stores much before the other metropolitan cities did. Demand for office space continues to grow for the third straight year.

Hyderabad: Hyderabad in South India offers attractiveness in terms of affordable rents, which is higher only to Pune among the Tier 2 cities. However, lesser household income and household expenditure has ranked it lower.

Indian luxury retail trends: Emerging Tier 2 and 3 cities
Forty-four percent of wealthy Indians reside in Tier 2 and 3 cities.

In the tier 2 and 3 cities, the highest demand is for luxury automobiles, followed by apparel for women and accessories for both sexes. According to Boston Consulting Group, 600 cities from Tier 2, 3 and 4 categories would be 4.5 times the current size.

Indian luxury retail trends: Performance drivers
1. *Value-conscious consumer:* India essentially has a value-conscious consumer base. New trends in this direction are :

a. Pre-owned luxury: Pre-owned luxury is a fast-catching trend. BMW, Mercedes and Audi have showrooms for sale of pre-owned cars.

A rapidly growing market owing to high depreciation of up to 30 percent in the first six months, this is a highly attractive proposition. Besides, it is quickly moving out of the initial category of automobiles.

The second-hand market for luxury leather goods and clothing segment is growing faster than the luxury industry overall.

Online platforms such as Luxepolis and Luxury station are relying on the fact that a considerable amount of merchandise lies unused in the closets of women. Made available at a good resale price, it is fueling the young generation's growing aspirations of owning premium and luxury brands.

b. Rent and experience: There are sites that offer rent-a-luxury product or service. The consumer wants to lap it up since it works completely well with their changing mindset as well as pockets.

A big portion of the demand in the Indian car rentals industry is for luxury cars as the aspiring consumer with increased disposable income wants to feel like a star for a special date or on anniversary.

2. *Customization:* With the increase in consumer desire for exclusive products, luxury brands such as Zegna, Tom

Ford and Corneliani are adopting bespoke services as an ultimate expression of luxury for the UHNIs.

This has also given rise to limited editions or special series to generate artificial desire and demand.

Customization and strong supply side are imperative steps for boosting the luxury market growth.

In addition, past offerings by international brands Sari by Hermes, Nawab jacket by Canali have set the tone for future directions for brands to adopt an India-specific range.

3. *Increasing digital influence, or Digi-lux, the new mantra:* Luxury brands were weary of making their products available online as it erodes the exclusive element from the luxury product. But they are realizing the importance of online not for commercial viability and to connect better with their consumers.

Suddenly, jewelry to cars to real estate to services, all being sought on the net. A combination of physical stores, digital experiences and social media engagement is the new mantra.

4. *Competitive landscape collaborate, not compete:* Although, there are multiple brands in every segment within the luxury domain, the key to expansion and continued development of the Indian luxury business is collaboration, not competition.

It is imperative to keep growing by mesh Indians' knowledge of craft with contemporary needs.

Bringing together the expertise while not diluting the brand equity is the key in a market with a highly fragmented consumer base.

A recent collaboration of an Indian designer brand, Sabhyasachi Mukherjee with an international designer brand Christian Louboutin, set a new trend of collaborative approach of non-competing brands that showcased the best amalgamation of craft , culture and design sensibilities of two great creative geniuses.

Indian luxury retail trends: Barriers
Despite the positive outlook, the Indian market does have certain inherent trade barriers:

Foreign direct investment: This is a key regulatory road block to growth of luxury retail in India.

Foreign direct investment restrictions are keeping brands out of the India. Fifty-one percent foreign ownership is the limit. One hundred percent is allowed, but only with 30 percent local sourcing of materials, with which many brands find difficult to comply. Brands fear dilution of their name and harming their business models.

Lack of adequate luxury retail infrastructure is yet another roadblock: Retail infrastructure is nonexistent and street-level environments are often unkempt. This forces luxury brands to generally launch boutiques in luxury malls or hotels through joint ventures with local distributors.

Lack of talent: Local talent that understands luxury retail is a challenge to find. Those available for employment are under-competent and highly overpaid. Specialized skill centers and luxury business schools have been launched to address this need.

Import tariffs: Crippling, import duties average between 30 percent to 40 percent on luxury goods brought from overseas for local retail. This coupled with the high transportation costs causes simple price parity and margin issues for retailers.

Not surprisingly, it is often cheaper for Indians to buy abroad.

Indian luxury retail trends: Opportunities
1. *Bridge to luxury:* The "bridge to luxury" is a strategy specifically aimed at emerging and immature luxury markets. For the luxury brand, this type of market presents a number of challenges:

Demand is primarily driven by price. With wealth and disposable income a relatively new phenomenon, the consumer is still extremely cost conscious.

The consumer is looking for brand aspiration or recognition as the main benefit of luxury consumption. In other words, the market does not yet value luxury for the actual experience and quality. It is characterized by conspicuous consumption from an increasingly image-conscious population, keen to display their wealth or social status.

The presence of knock-off products in the local market: With the combination of brand- and cost-driven demand, the local market is much more open and susceptible to trade in fake goods.

Entry-level range models make up for maximum sales and provide the "bridge to luxury" for which the millennial

generation is aspiring. It is quite clear that in case of BMW and Audi, the majority revenue share comes from entry- and middle-level ranges of 1 and 3 series respectively.

2. *Targeted distribution channels:* Lack of quality retail space and the presence of customers in different geographical areas and inability of suppliers to reach the target customer necessitates that luxury brands targeting India develop innovative models for distribution.

An example of innovative distribution strategy was adopted by luxury handbag maker Judith Lieber, which conducted an exclusive trunk show in Indore, a Tier 2 city in Central India. Sales from this event equalled 10 percent of the previous years.

Brands such as Italian apparel maker Kiton and British footwear maker John Lobb have entered through a private sale model with no physical showroom or permanent overhead.

In addition, with increased Internet use, ecommerce in India is still at an early stage with a long way to go. Indeed, there is an over-supply of startups, expressing the immaturity of ecommerce market and luxury brands must be conscious of choosing the right distribution channel.

Road ahead
Luxury comes a full circle in India. India is not new to luxury brands.

Although India may be the fasting-growing economy in the world, grabbing a piece of its luxury market has been more difficult than anticipated.

What was Western luxury brands' biggest consumer base during the times of India's maharajas and nawabs is once again the target market for the same brands. This time, it is the new maharaja and nawab, the new corporate HENRY, the new young pulsating India that is driving sales of luxury goods.

This customer has dreams and expectations. He or she wants luxury to provide a personalized, customized and Indianized experience.

India's new breed of consumer buying luxury goods and services expects a more cherished luxurious experience.

Luxury brands should create a brand connection with consumers through media, public relations and special events. Provide closeness, uniqueness, product and brand acquaintance with appropriate messages.

Educate this new Indian customer with your value proposition: Reach out, engage, inform, indulge, entertain and then retain.

This customer is loyal and will remain with the brand if assured of prompt service, efficient sales staff, continuous engagement and mutual respect.

Some luxury brands entered the Indian market with flashy advertisements and low product width, but sputtered because their target the old, rich consumer was expecting the same experience as they get abroad.

Now, luxury brands and retailers are shifting their focus to the newly affluent Indian consumer who is aspirational but does not understand the products very well. Their current mass-marketing strategies are not working.

In a country with a multitude of cultures, languages, religions, festivals, colors and tastes, there needs to be a localized marketing strategy.

Brands will have to understand the flamboyant Punjabi from North India and a reserved Bengali from Eastern India.

For example, luxury pens brand Montblanc which successfully operates 19 retail points across first-, second- and third-tier cities in India has regionalized all its marketing material.

"There is a clear distinction in customer values between [Indian] states," said Tanya Kapinda of ID8 Media Solutions, an agency which works with Montblanc's marketing division in India.

"Any time a letterhead, invitation or a newsletter is produced, we customize [it] according to the local language and other aesthetic considerations such as colors used and the amount of decoration," she said.

With varied types of customer categories, it is imperative to connect and convert the first-time walk-in client in a luxury store.

Store staff interaction comes out as one of the most important parameters for customer conversion and retention.

Sales staff can elevate the consumers' involvement with the brand, both emotionally and materially.

For closing the sale and retaining repeat customers, brands must deliver influential, enlightening and touching experiences since the physical store experience is the most memorable form of communication that a luxury brand can offer.

Organizations need to create a value experience through the digital platform in alignment with the store experience.

A VAST NATION, multitude of cultures, unity in diversity and a majority young population makes India a distinct consumer base global luxury brands and retailers.

Brands focusing on an India-specific strategy and connecting with the local Indian consumer will triumph in the coming years. Luxury from the maharaja to masses is here to stay.

Abhay Gupta is founder/CEO of Luxury Connect and Luxury Connect Business School, Gurgaon, Haryana, India. Reach him at abhay@luxuryconnect.in.

2 thoughts on "How luxury brands should target India's super-rich"

1. Property in South Delhi says:

   June 9, 2016 at 3:40 am
   Luxury real estate brands should also target high profile areas like South Delhi, Lutyen Zone for customized interior projects and turnkey construction. There is lot of scope for luxury furnishing brands

2. Srinivasa Rohith says:

   September 24, 2016 at 8:07 am
   Please correct your statement. Hyderabad, bengaluru aren't tier 2 cities…