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GOVERNMENT

India's new budget proposal impedes sale of imported luxury goods

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Western luxury brands looking to enter India will have a harder time in the future. Image credit: Christian Louboutin

By DANNY PARISI

Under a new budget proposal in India, high-end goods are about to get a whole lot costlier for the country's aspiring luxury consumers.

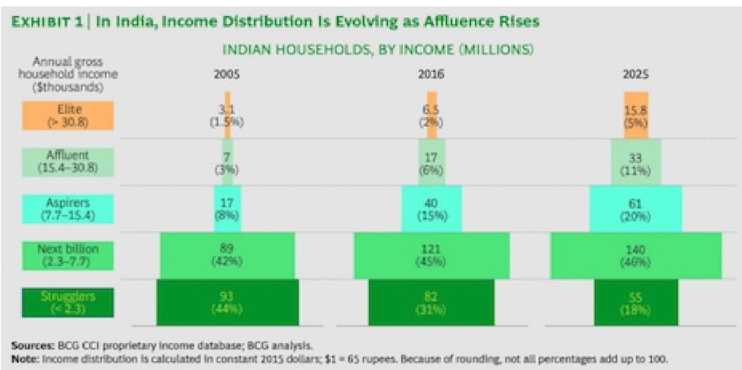
India's finance minister Arun Jaitley has outlined a budget that would lighten the burden on Indian-made products while increasing taxation on imported goods from highly-desired Western luxury brands such as Coty, Inc., Gucci and Burberry. As India seeks to emulate the astonishing growth of China, luxury brands will have to weigh their options on how best to approach strategy in the South Asian country.

Budget proposal

While India as a nation is still battling issues of poverty, the country is also home to a healthy and growing middle class.

This middle class has been clamoring for imported goods, particularly iPhones, expensive cars and other luxury items typically acquired from Western countries.

But under a new budget proposal from finance minister Mr. Jaitley, those products would be much more expensive to acquire.



India's affluent class is growing. Image credit: BCG

This new budget would double customs duties on a number of categories, including imported makeup, perfume, wristwatches and electronics. Other categories such as footwear, cars and jewelry, would all see large hikes in customs duties for imported goods.

The stated goal of the budget outline is to increase India's production and manufacturing power by incentivizing consumers to spend more money on domestic goods and disincentive the appetite for imported luxury goods.

One of the biggest impacts the new budget will have is on the luxury auto business in India. Luxury cars were already heavily taxed before the new budget proposal, but now their rates will be even higher, making potential sales from brands such as Audi even more difficult in India over the coming years.

Indian expansion
Consumption in India is set to reach $4 trillion by 2025, according to a new report from the Boston Consulting Group, suggesting that luxury brands may do well to invest more resources in marketing and selling in the market.

Within the next few years, India is set to become the third largest consumer economy in the world. With the lion's share of this growth being pushed by a newly wealthy affluent consumer class, luxury appetites could soar in India by 2025 (see story).

This growth has also inspired a number of luxury brands to begin new campaign efforts set on targeting India's burgeoning consumer class.

For example, footwear designer Christian Louboutin traveled from Paris to Kolkata, India to present an exclusive, ultra-limited-edition capsule collection for men and women.

Christian Louboutin's project saw the footwear brand partner with Indian haute couture designer Sabyasachi Mukherjee, a favorite of Bollywood stars. The capsule, which marks the third collaboration between the two designers, includes one-of-a-kind and some made-to-measure styles in sari fabrics from Mr. Mukherjee's personal collection (see story).

Early last year, German automaker Audi teamed up with Indian self-drive car rental company Zoomcar to rethink urban mobility.

Audi Q3. Image credit: Audi

Consumers are now be able to book an Audi Q3 through Zoomcar's mobile application and Web site, which offers hourly, daily, weekly and monthly reservations. As consumers increasingly turn to alternatives to car ownership, automakers are finding new ways to remain part of consumers' lives (see story).

These efforts and more have shown that the global luxury industry is more than willing to enter the Indian market, but the new budget proposal from the Indian government could hinder some of those ambitious plans.