

The Indian economy is raising a lot of interest globally given its statistics of the highest disposable incomes and increase in the number of millionaires.

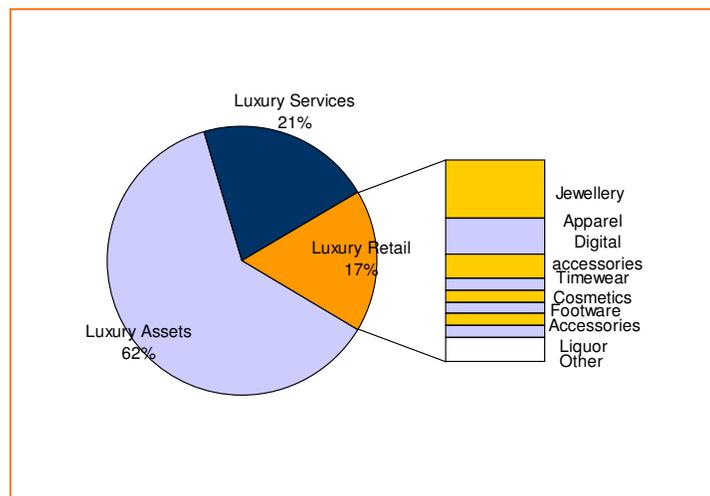
India is home to 167,000 millionaires, some of the richest men in the world are living here... With the fastest growing high net worth individuals in the Asian region the number of people with over US \$1 million in net assets grew in 2008 at a roaring 22% despite the recession. The country's "super rich" are a group largely comprising of entrepreneurs, wealthy farmers and political middlemen whose fortunes depend on the domestic economy, which grew at 7% even during the slowdown.

So can India be the next China for the luxury goods consumption and brands?

According to recent industry reports, there are over 2 million luxury households in India. Each of these households earns about over \$100,000 per year and spend about \$9,000 per year on luxury and high-premium goods. A 2008 survey said Indians spent as much as \$2.9bn on private jets, luxury homes, cars, yachts and art. They also spent \$953m on luxury services and \$377m on other high-end goods.

India's luxury market is worth about \$4.35bn and should grow to \$30bn by 2015 This is still a tiny part of the entire global luxury sales, yet the Indian luxury retail is booming with current compounded annual growth rate of 25%. The luxury retail market size is estimated to be at \$500 million and is growing at a rate of 35-40% p.a. The luxury watch market and branded jewellery each are growing at 40% p.a., and wine at 30%.

Figure: Indian Luxury market in India 2008 (Total of \$4.35bn)



The last couple of years have seen a flow of luxury brands into the Indian market: from stand-alone stores in five star hotels to luxury malls. The big luxury retailers began their foray into India in 2002. So far more than 50 premium and luxury brands, including Jimmy Choo, Gucci, Christian Dior, Piaget, Moschino, Todd's, Chanel, Porsche, Louis Vuitton, Rolls-Royce, Rolex, Bvlgari, Cartier and others, have set up shop in India with boutiques in five-star hotels and shopping malls.

Despite the economic downturn brands like Gucci, Lladro, LVHM, Fendi are investing to pick up a higher stake in their Indian franchise joint-ventures and other brands such as Hugo Boss, Burberry, Cartier, Chanel, Tommy Hilfiger, Regent Hotels, BMW, Audi and Esprit, now in expansion mode and opening new outlets.

Moreover, recently brands like Versace, Giorgio Armani, Escada, GF Ferre selected local partners and are in process of opening first outlets while other brands, including Nina Ricci, Carolina Herrera, Christian Louboutin, Harley-Davidson and Max Mara, are eyeing India.

The brands with existing presence are seeing double-digit growth rates: Lladro grew by 75% in the past financial year, while Swarovski and Art d'Inox have grown by 25% each. Versace Collection's business has grown by 15 to 20 in the first 2 months of 2010 after a 20% slow-down in 2009.

However, with the world's economy in recession, luxury retailers are rethinking plans that saw them rushing into the Indian market. A combination of global downturn, domestic red tape, regulatory hurdles, lack of quality retail real estates and a thriving trade in smuggled goods means it will be a long time yet before India becomes big business for most Europe's luxury retailers.

The major hurdles that the luxury brands come across in India are:

- high import duties of up to 45%;
- high percentage of "rich people" who do not see luxury retail as a necessity along with value conscious consumers that are willing to travel abroad to pick up designer handbags, sunglasses, clothing and shoes;
- lack of quality retail space and High Fashion Streets;
- high retail space rentals and salaries matching the ones in Singapore despite much lower sales;
- need to provide services along with products as Indian consumers are used to personalised customer service;
- limited control over brand retailing as maximum 51% FDI is allowed in single-brand retailing;

This led many international brands to revise their initial optimistic business plans, push break-even projections (it is estimated the average luxury retail outlet in India last year lost \$375 per square foot, before overheads), focus on building brand awareness, slow down expansion plans and even often change franchise partners.

For more information on the Luxury Market and opportunities in India, you can contact:

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