

IMPACT OF DIGITALIZATION ON INDIAN LUXURY MARKET

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Abstract: Indian luxury industry is growing rapidly at the rate of 25% p.a. It is estimated to reach US\$ 14 billion by the end of 2016 from US \$8.5 billion in 2013 (Assocham, 2014). In recent times, demand for luxury brands is spurred by digitalization. Digital platforms are increasingly used by the retailers to provide ease of shopping and to extend their reach ability among the customers. According to an Assocham (2016) study the online luxury stores will see an influx of 35 billion dollars in 2016 and by 2020 the study foresees the market to get doubled. In spite of such monumental growth in the luxury sector, there are very few studies performed to understand the changing dynamics of Indian luxury market. This study aims to bridge this literature gap. Based on the review of extant literature, this study tries to put forward the major changes witnessed by the Indian luxury market in the recent times as well as its impact on the evolving Indian luxury market. The objectives of this study include: *firstly*, to determine the drivers leading to growth of Indian luxury market, *secondly*, to understand, examine and analyze the impact of digitalization on Indian luxury market and *thirdly*, to determine the challenges faced by Indian luxury market. This study has important implications for both marketers as well as researchers.

Key words: Digitalization, India, Luxury, Market

1. Introduction

Luxury markets have seen monumental growth in the last decade. Emerging markets have turned to be the major source of this growth. Lot of economic instability, social unrest, global currency wars and threat of terrorist attacks was witnessed in 2015, yet global luxury goods industry remains highly optimistic. Indian luxury market remains firm and maintains its position as the fastest-growing luxury market (Aroche, 2015). It is estimated to reach US\$ 14 billion by the end of 2016 from US \$8.5 billion in 2013 growing at the rate of 25% p.a. (Assocham, 2014).

Indian economy is growing at a very fast pace. Emergence of internet, seamless global markets, rising income and growing awareness among the people has propelled the demand for luxury goods in second and third tier cities like Jaipur, Surat, Chandigarh, Ludhiana and Pune. The sales of luxury goods in non-metro cities have increased manifold times. Based on the recent "CII-IMRB" report, luxury sales from the non-metro cities, namely, Ahmedabad, Pune, Nagpur, Hyderabad and Ludhiana comprised of 16% of the total luxury sales in India (Chaturvedi & Sharma, 2015). According to the report, quality is considered as most important characteristic in buying luxury product. However, Delhi and Mumbai are still the major cities for buying luxury brands in India.

Although, India is witnessing rapid growth in luxury sector, still there is dearth of studies conducted to understand the factors driving this growth. So far, very few studies have been performed to understand the landscape of Indian luxury market. This study aims to bridge this literature gap. Based on the review of extant literature, this study tries to put forward the major

changes witnessed by the Indian luxury market in the recent times as well as its impact on the evolving Indian luxury market. The objectives of this study are as follows: *firstly*, to determine the drivers leading to growth of Indian luxury market, *secondly*, to understand, examine and analyze the impact of digitalization on Indian luxury market and *thirdly*, to determine the challenges faced by Indian luxury market.

This study has important implications for both the academicians as well as practitioners. This study will add to the existing body of knowledge by providing new theoretical insights in the field of Indian luxury market. This study will also enable the global luxury players to better understand Indian market and accordingly design suitable penetration and growth strategies to capture the growing Indian market.

2. Conceptualizing Luxury

Although, it is not easy to define luxury but various studies have contributed in this domain. Vigneron and Johnson (1999) integrated previous research findings in delineating five effects on luxury goods consumption: interpersonal personal effects namely, Veblen, snob, and bandwagon effects; and personal effects namely, hedonic and perfectionism effects. Individualists purchase luxury goods for self-directed benefits: affective (e.g. hedonic pleasure), symbolic (e.g. self-expression), and utilitarian (e.g. taste for quality) (Tsai, 2005). On the contrary, collectivists' luxury purchase decisions are guided by interpersonal factors (Wong and Ahuvia, 1998). These brands may symbolize different meanings to different societies based on the culture existing in that society (Schutte & Ciarlante, 1999; Wong & Ahuvia, 1998). A person residing in USA may purchase "Prada" handbag to attain inner satisfaction and sense of achievement, but a consumer in Japan may purchase that purse to achieve group conformity (Schutte & Ciarlante, 1999).

3. Luxury Retailing in India

According to India luxury retail market analysis (2013) luxury retail has witnessed rapid growth in India. While most of the mature markets are undergoing slowdown in sales, India is being heralded as holding much future potential. Although, international brands face many challenges currently, most view their venture into India as a long term investment that will eventually yield massive returns. The Indian luxury market is expected to more than double its current size over the next five years. The growth of India as a luxury products market and its potential is obvious and there is a positive sentiment towards global brands.

Almost a decade ago, luxury consumers were divided into two categories, namely, traditional luxury consumers who had old money and bought luxury for their passion for timeless elegance and new luxury consumers who purchased luxury for flamboyant display of their new wealth. Today, luxury consumer profile can be further segmented. There is a growing trend of large number of millennial luxury consumers who are well informed and their preferences vary substantially. They are open to experimentation and look for value proposition, unlike traditional luxury consumers who are loyalists and don't believe in switching brands (Narayanan, 2015).

As the consumers in India are evolving, so do the channels; as a result, many luxury players have 'switched' partners to suit specific needs. Examples include players such as Corneliani, Villeroy & Boch, Versace and Guess. At present, only a handful of Indian companies continue to be the preferred choice of luxury players, primarily in segments such as clothes and accessories. This

trend is likely to continue as luxury brands continue to assess their strategy (Fashion United, 2012).

3.1 Major Growth Drivers

Indian luxury market is witnessing phenomenal growth in the past decade. Service areas such as fine dining, electronics, luxury travel, luxury personal care and jewelry are estimated to grow around 30% over the next three years (Gupta, 2016). Following are the major reasons contributing to its growth:

- Indian market has become most important destination for luxury goods due to ever increasing number of high net worth individuals (HNWI) / dollar millionaires. The net worth of ultra high net worth households is estimated to grow five times to US \$5 trillion by 2016. The number of ultra high net worth households is estimated to rise from 81,000 in 2011-12 to 3,29,000 by 2017-18 (Kotak Wealth Management Report, 2013).

Figure 1: Number of Ultra High Net Households



Source: Kotak Wealth Management Report 2013

- Growing focus beyond the metros and tier-1 cities is driving the growth of Indian luxury market. According to Kotak Wealth Management Report (2015) metro cities are generating 56% of the total luxury market revenue where as rest 44% is coming from smaller cities and towns (Figure 2).

Figure 2: Luxury market revenue across metros and non-metros



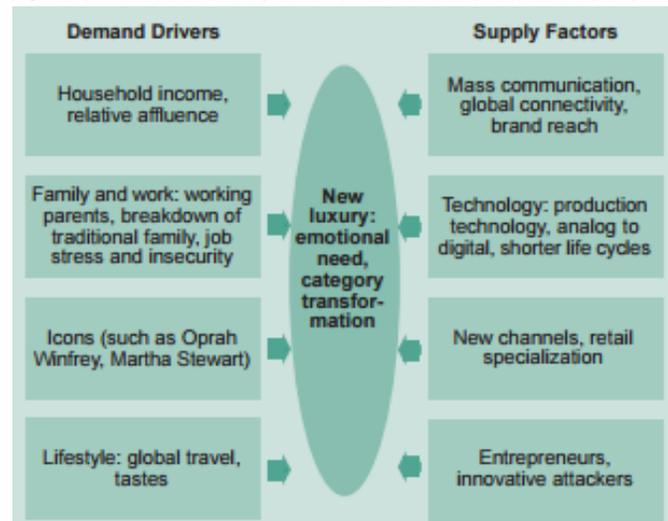
Source: Kotak Wealth Management Report 2015

- Increasing mobile and internet penetration is slowly but surely changing the landscape of Indian luxury market. India is the third largest country in the world in terms of internet access. Close to 140 million Indian people are now using internet. More than 75% of the

internet users in India are youngsters who like to experiment with luxury brands more often (Assocham,2016). A combination of physical stores, digital experiences and social media engagement is the new mantra for success. The millennial consumer seeks collaborative opinions and collective influencers to finalize his purchase decision. According to Assocham-Deloitte report (2015) growing penetration of e-commerce and m-commerce, advanced payment options, huge online discounts are the major drivers of this unprecedented growth.

- Powerful forces driving ‘New Luxury’ leads to the fuelled growth in this sector. Luxury is no more be destiny of only traditional luxury buyers; rather an increasing proportion of luxury demand in India is likely to come from upper middle class population who aspire to buy these goods. Due to their rising income levels, this segment is motivated to ascend ‘consumption ladder’. These new rich consumers are considered to be key target audience for luxury players across the globe (Shukla, 2011). Indian market is catching attention of large number of global luxury companies. Many players are coming up with entry- level luxury brands to capitalize on the potential of this segment (Assocham, 2014). Companies like LVMH, Hermes India Ltd, Burberry India and others are emphasizing on affordable luxury to tap this growing segment (Euromonitor, 2015). Figure 3 describes demand drivers and supply factors leading to the ‘Democratization of Luxury’.

Figure 3: Powerful Forces Drive the Democratization of Luxury



Source: Boston Consulting Group (2002)

- Economic reforms and ease in the foreign direct investment (FDI) policies in the retail sector has also significantly influenced the luxury landscape in India. Looming tax reforms in form of GST roll out could substantially ease the tax pains of multinational luxury brands and help them operate seamlessly across multiple states and locations.
- Increased accessibility to luxury brands through growing number of both high-end luxury retail outlets as well as luxury online shopping portals. DLF is ready to launch the Chanakya by DLF Emporio in April 2017 to cater to the growing needs for luxury brands.

3.2 Impact of Digitalization

In recent times, lots of new trends are emerging in luxury industry which is going to set the shape of future Indian luxury market. There was a time not long back when it was thought that nobody would buy high-end prestigious brands without the touch and feel experience. But, today with the changing market scenario where 95% of the luxury consumers across the globe are digitally connected and around 75% of purchases in luxury domain are affected by a minimum of one digital touch point. Today's consumers have unparalleled ability to buy and avail knowledge from the sources beyond retailers; they purchase decisions are influenced by social-media "buzz" and websites. A research by McKinsey reported that although worldwide luxury market saw merely 2% growth in 2013, the online luxury sales grew by 20% reaching €9 billion and is expected to double in the coming 5 years to hit the mark of €20 billion (Dauriz *et al.*, 2014).

Even though, at present ecommerce accounts for a very small proportion of the total luxury sales but it is growing rapidly due to the strong demand from opulent consumers in emerging economies like India. According to a recent survey by ASSOCHAM (2016) increased purchasing power of the people living in Tier-2 and Tier-3 cities along with high penetration of internet will result in approximately 100 million transactions on the internet by 2020. This will further boost the demand for luxury goods in Indian market. Indian luxury consumers are historically been drawn to brick and mortar store based upon personalized service and unique experience. Digitalization has resulted in compelling price, wide variety of options, easy access and convenience for luxury consumers. Aspirers who see luxury brands as 'investment' are also attracted to buy online due to the ease and incentives provided by e-tailers. Consumer shopping journey is undergoing sudden change from physical stores to virtual stores where they can shop 24/7/365. Looking at changing market trends, various companies in India are coming up with online ventures in luxury domain. Recently, a prominent ecommerce company 'Paytm' disclosed its plans to launch first mobile luxury platform for various high-end brands like Gucci, Fendi, Furla and Burberry in India. Recently Amazon India also started selling luxury brands like Furla, Versace, Tumi. There are many portals like Darveys, RocknShop, Elitify, Stylebop, Exclusively and others which are exclusively catering high-end brands (Chaturvedi, 2016). They offer unique platform to choose from wide collections of such brands as well as provides convenience of delivery at doorsteps. They are getting humongous demands from high net worth individuals residing in tier-2 and tier-3 cities in India. These e-tailers have successfully been able to tap these consumers who earlier had no avenues but now have easy access to buy these luxury goods.

Now-a-days, as entire world has become a small global village with seamless internet connectivity, growing number of buyers are lured towards online purchases of luxury goods. Marketers are shifting their budgets from offline to online. Digital tools and technologies are becoming heart of the luxury decision making process. No doubt, luxury stores are still the key touch point where customer makes their purchases but now-a-days digital platform are increasingly used by the marketers to provide similar experience as well as to extend their reach ability among the customers. Luxury brand players are aiming to invest in high-end technologies that seamlessly fuse online and offline platforms to enrich consumers' buying experience. They are working hard to provide bespoke experience to its affluent customers through omni-channel. These new emerging trends are certainly going to make a new mark in the growing Indian luxury market scenario.

Online marketing is becoming popular in most of the markets across the globe. It is evident from the data that today's consumers are well-informed. Before making actual purchases, luxury buyers are proactively involved in their online research. Social media provides a platform for luxury brand retailers to directly interact with their target audience. They can provide information about their upcoming products and services; special events etc and engage their potential clients (Jones, 2016). According to an AC Nielsen report, around 70% of Indians residing in metros and Tier 1 cities check online reviews before making final purchase decisions. They heavily rely on social media sources like Facebook and Twitter and brand websites when doing their research.

Figure 4: Top Information Sources for Luxury Goods

Top 3 Information Sources for Luxury Goods	
Australia	Social Media, Online Search, Brand Website
China	Shopping Malls, Social Media, Brand Website
Hong Kong	Social Media, Online Search, Magazines/Shopping Malls/Online videos
Japan	Brand Website, Shopping Malls, Social Media
Korea	Online Search, Shopping Malls, Social Media
India	Social Media, Shopping Malls, Online Search
Singapore	Social Media, Online Search, Brand Website
Thailand	Social Media, Shopping Malls, Online Search
Malaysia	Social Media, Online Search, Shopping Malls
New Zealand	Social Media, Online Search, Brand Website/TV/Magazines
Taiwan	Social Media, Shopping Malls, Brand Websites
Philippines	Social Media, Online Search, Shopping Malls
Indonesia	Social Media, Online Search, Shopping Malls
Vietnam	Social Media, Shopping Malls, Online Search

Source: <http://luxurysociety.com/articles/2016/01/the-luxury-landscape-in-2016-consumer-purchase-intentions>

3.3 Challenges faced by luxury retail in India

Indian luxury market is still at a nascent stage. It lags behind its emerging market peers like China. At present, India accounts for only 1-2% of the global luxury market (KPMG-ASSOCHAM India Luxury Summit, 2014) where as China is estimated to be about 20% of global luxury market in 2015, according to McKinsey research (Atsmon et al., 2011). Some of the challenges inhibiting the growth of luxury retail in India are:

- There is lack of quality luxury space and environment. The presence of luxury brands in India is still restricted to malls and countable luxurious hotels. There are limited retail outlets for high-end luxe brands (only three- DLF Emporio, Palladium and UB city). In India, high streets are very cluttered and over-crowded and therefore, do not provide suitable ambience that luxury retail demands. Also, high rental costs of setting up luxury stores in high streets, deters the retailers from opening these stores. Therefore, weak infrastructure is one of the major challenges that inhibit luxury retail growth in India.
- Fragmented and diversified customer base makes it difficult for the retailers to reach them. Indian buyer is still traditional in his or her preferences. Apart from people with old money who are regular buyers and the rich professionals who are conscious spenders, there is a huge section which comprises of businessmen who have the resources, but do not have an eye to appreciate fine luxury brands due to lack of exposure, accessibility and brand awareness. Therefore, it's a challenge for luxury retailers to make their strategies to

capture demand across these categories. They have to tailor make their products to suit the whims and fancies of Indian consumers.

- Lack of supportive policies by the government act as a major inhibitor. In 2012, the government allowed 100% FDI for single-brand retailers, making it mandatory that 30% of the value of goods be sourced from India, preferably from micro, small and medium enterprises (MSMEs), village and cottage industries and artisans. Although, according to The Economic Times report (2014), the department of industry policy and promotion (DIPP) was considering to wave off the 30% on domestic sourcing norm to encourage foreign brands to enter Indian market but till date it has not been implemented. High import duties also restrict the growth of Indian luxury market. The duties are higher as compared to other Asian countries like Singapore. Import duties range from 20% to as high as 150% which discourages the international players to enter India as well as customers to buy in India. Therefore, customers prefer to fly to Dubai or Singapore where they get large variety at competitive prices due to no import duties unlike India.
- There is also lack of skilled labour force. There is need to have trained manpower who understands unique characteristics of luxury and is well- equipped to handle luxury consumers. More educational institutions are required in India to provide systematic luxury training to the youth who then can better serve to the needs of this industry.
- Another important challenge faced by luxury retailers is how to best convey a brand's heritage, authenticity and craftsmanship while making 'Indianisation' strategies. International luxury players will have to focus on localization to win the heart of 'Indians' but at the same time they have to preserve their brands' heritage for which they are known for years.
- Counterfeits product market constitute of around 5% of the Indian luxury market and it has been rapidly growing at a rate almost double of that of genuine products (India Luxury Summit, 2014). Luxury retailers in India are facing supply side challenges like legal loopholes regarding intellectual property rights and a large number of online portals which are selling fake luxury products. Under French law, purchase of fake product could lead to penalty upto Euro 300,000 or three years imprisonment such laws should also be made in India to protect the growth of Indian luxury market.

4. Conclusion

Luxury retail industry is evolving in India. It is witnessing gamut of new trends. The luxury conversation occurring across social media channels has increased by 75 percent year-on-year basis, according to a Netbase's report (King, 2016). Understanding consumer interests can help luxury houses formulate a social media strategy that works to engage and interact with enthusiasts by keeping them up-to-date on brand happenings, products and services. In the changing luxury landscape, marketers should have brand presence, both online as well as offline. They should judiciously spend their marketing budget of luxury brands on both the channels. Their objective should be to provide omni-channel experience to the customers.

In spite of the fact that luxury is growing at a frantic pace; there are limited luxury retail outlets in India. However, in future with better infrastructural growth and development many new stores are expected to open. Also, there is great need to develop trained manpower to successfully sell these high-priced brands. Most brands have in-house training systems to train staff on aspects such as etiquette, visual merchandizing and knowledge. Elements for such training often borrow heavily from those of their global parents. Recently, with the local market evolving, several luxury brands have 'Indianised' their pitch to suit shoppers. This includes focusing on educating shoppers who are new to luxury and speaking in local dialects to make the customers feel comfortable. It is important for luxury retailers to work at the consumer end and to create awareness about genuine products. This is even more important as a large number of aspirers with diverse backgrounds and limited knowledge of products have become potential consumers. Only a handful of players have effectively engaged the consumer in education and brand communication. Going by the latest wheel in the luxury retail sector, Indian luxury market can go a long way by developing long-term relationship with its customers through understanding their unique needs and providing personalized experience to them.

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