



BUSINESS RESOURCE INDIA

The Indian luxury market: IHT conference 2009

TIM JACKSON, WGSN 30.04.09

India's developing retail market and a large consumer base suggest huge potential for the global luxury sector, but it remains a challenging market in which to establish a foothold. WGSN reports from the IHT annual luxury conference.

The IHT's decision to stage its annual global luxury conference in New Delhi reflects the growing interest in the Indian market as both a growth opportunity for global luxury brands and a production market in some cases.



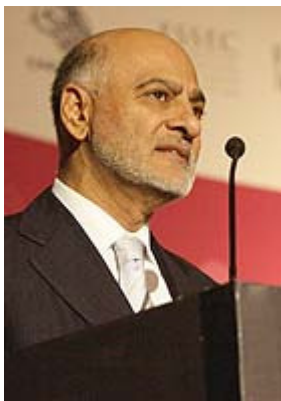
DLF's shopping malls

The Indian luxury goods market accounts for just 0.4% of the global luxury sector, but is predicted to grow 25% over the next five years according to a 2008 Bain & Company report, cited by Patrick Chalhoub, co-CEO of the Middle East-based Chalhoub Group.

Cumbersome import procedures, high duties and a fragmented retail environment, however, have made India a difficult market for luxury brands to enter and make profitable.

Retail space

The lack of a suitable retail infrastructure has been a major obstacle for luxury businesses wanting to do business in India, and luxury retail is typically limited to upscale hotels such as the Chanel boutique in the Imperial New Delhi.



Mohan Murjani



Gucci store

Despite some key milestones in modern retail development in the market - such as the opening of India's first department store, 'Shoppers Store', in 1991 and its first luxury shopping destination, The Galleria, in Delhi in 2007 - Mohan Murjani, chairman of luxury distributor Murjani Group, noted that **organised retail is just 8% of the market**, up from 2% in 2005. Although growing, this remains a small share compared to 20% in China and 85% in the US.

About the event

The IHT Sustainable Luxury 2009 conference was held at the Imperial Hotel, New Delhi March 25-26, 2009 and was hosted by fashion editor Suzy Menkes. The event was postponed from November 2008 following the Mumbai terrorist attack.

www.iht.com

Links

Chalhoub Group
www.chalhoub-group.com

DLF
www.dlf.in

Murjani Group
www.murjanigroup.com

The Sachdev Group
www.thesachdevgroup.com

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Between 2002 and 2007, Murjani noted that retail mall space doubled each year, to 40 million sq ft by the end of 2007. By 2008, mall space was set to reach 100 million sq ft, but **only 60 million sq ft of the projects were completed**, making planning for growth in the Indian luxury market that much more challenging again.

Luxury brand development: Giorgio Armani

Giorgio Armani SpA entered the Indian market in late 2008 via a 51:49 joint venture with DLF Ltd, opening an Emporio luxury mall in New Delhi. **Retail space and available formats are playing a major role in the company's development in the market.** According to reports, the JV has since put on hold plans for another store and cafe at The Collection Luxury Mall in Bangalore, highlighting the frequent delays and challenges of establishing a foothold in the market.



Emporio Armani store

DLF Emporio

John Hooks

John Hooks, Giorgio Armani's deputy managing director and group commercial director, said that the Indian market needs to develop much further to enable luxury brands to succeed.

Explaining the particular needs of the **Giorgio Armani business model** when expanding into new markets, he outlined the group's five-brand portfolio and distribution strategy: "We have a luxury brand called Giorgio Armani and a fashion brand called Emporio Armani." **Neither of these brands are distributed widely**, the former is via around 60 freestanding stores worldwide only, while Emporio Armani is also usually via freestanding stores and only rarely via department or multi-brand stores.

Around the luxury Giorgio Armani line, the group has the diffusion volume line Armani Collezioni, and around Emporio Armani it has Armani Jeans, both of which are **more widely distributed** via standalone and multi-brand stores. The group's fifth brand is Armani Exchange, which operates as a mono-brand formula.

"When we enter a new market we like to establish our credentials for luxury and fashion," said Hooks, citing a preference to open the first line, Giorgio Armani, or at least an Emporio Armani store, if conditions are right. "So coming to India has been a challenge."

"The **sequence of opening stores is very important** [in a new market] and the success we have with the diffusion lines is dependent on how well we establish luxury and fashion lines first," he added. "We are very dependent on infrastructure, because in the case of Armani Collezioni and Armani Jeans we need the department stores and shopping malls and we need the multi-brand stores".

However, in acknowledgement that the Indian market is immature and is unlikely to change much in the short term, Hooks added that **Armani is in India for the long haul** "as long as we don't have to compromise our brand or our strategies".

Financial performance indicators

Although the Indian retail sector is estimated at \$300bn in value, Mohan

Murjani, chairman of luxury distributor Murjani Group, said many brands have failed to understand how to build business successfully in India.



DLF shopping mall

Most of the current shopping malls are not suitable for major international brands, he added, and **the financial model for many luxury brands is far too optimistic**. He highlighted this optimism by detailing a series of performance indicators of brand expectations in 2005 versus the reality of operating in 2008, including gaps in sales forecasts per square foot and rent levels (see image).

One of the key reasons for poor performance is an imbalanced partnership, said Murjani. Franchisors and brand owners often have decades of experience in both developed and emerging markets but their Indian partners have had little or no experience in the retail luxury business, especially regarding the major pitfalls that await them. "Sadly, brand owners have pursued one-sided and imbalanced agreements, which have now started to unravel," he said.

| Performance indicator | Expectations 2005 (US\$) | Reality 2008 (US\$) |
|------------------------------------|--------------------------|---------------------|
| Sales per sq ft | 1000 | 500 |
| Gross margin | 500 | 250 |
| Markdown | -100 | -125 |
| Net margin | 400 | 125 |
| Rent | 125 | 250 |
| Gross contribution before expenses | 275 | -375 |

Indian luxury consumers

Despite the various structural commercial barriers luxury brands confront when entering the Indian market, Charu Sachdev, CEO of TSG International Marketing Pvt. Ltd, the retail arm of The Sachdev Group, raised an additional issue relating to consumer behaviour.

She revealed that although there is a lot of money in India there is also **shame in spending conspicuously**. However she noted that consumers feel freer to spend extravagantly abroad, adding that even non-resident Indians don't like to spend on 'home turf'.

Murjani agreed that there is a trend for Indian consumers to spend abroad, rather than at home. "With shopping abroad now being firmly entrenched as a culture and mindset of the Indian consumer, it will take some years to change their preferential shopping habits."

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