

# India's strategic big spenders

REPORT | 22 Jan 2014

Given its per capita GDP and number of high net worth individuals, analysts estimate that India's luxury market could be up to 150% larger than it is now. Can an understanding of the unique Indian mindset help unlock its full potential?

## AUTHORS

Mridu Khullar Relph

**LOCATIONS:**  
INDIA

**GENERATIONS:**  
GEN X (BORN  
1967-1981)  
GEN Y (BORN  
1982-1996)

**SECTORS:**  
LUXURY  
SHOPPING  
COMMUNITY AND GRASS-  
ROOTS



## SCOPE

A young, twenty-something Indian man was getting married in a few weeks. His father, who worked in the luxury industry, suggested he wear a Canali suit on his wedding day. The man went to the Canali boutique, got himself measured, and was told that the suit would cost him upwards of £1,000. He thought about it, and debated the cost – but in the end he bought a £250 suit from the local tailor instead. After his wedding, he confessed to his father that he might have made a mistake. “I should have bought the Canali,” he admitted. “Because the way I felt in that store is what I treasured the most.” [1]

This feeling, says Dr Ashok Som, Professor of Management and Founding Associate Dean of the Global MBA ESSEC Business School, is what luxury is all about. The identification with the story of a brand, its history and craftsmanship; all the intangible and immeasurable factors that make you feel a certain way. [1]

India's \$7.58 billion luxury market has grown 15% in since 2010. [2] But given India's per capita GDP and the number of high net worth individuals, analysts estimate that the country's potential luxury market size is 120% to 150% larger than its current size. [3] This ranges from apparel, accessories, watches and jewellery to luxury hotels, spas, and houses. Having taken inspiration from the West, India's luxury market is just coming of age – but Indian luxury buyers have their own particular traits. Can an understanding of the unique Indian mindset help unlock its full potential?

## THE COST-CONSCIOUS LUXURY BUYER

A report by the Confederation of Indian Industry (CII) and IMRB International claims India is witnessing an emergence of ‘closet consumers’, which it defines as people who look at the cost and value even when shopping for luxury products.

“The inner conflict between a middle-class mindset and the globally rich income level, between conspicuous consumption and a level of luxury which is a result of hard work, shapes what we call the closet consumer,” reads the report. “Such consumers’ definitions [and] symbols of luxury are often at variance with conventional definitions and symbols.” [4]

“When we say closet consumer, it's typically people who are first, maybe second-generation kind of affluent,” explains Sushmita Balasubramaniam, Vice President of IMRB's Retail Business Unit, who worked on the report. “Where, for instance, my parents could have been from middle-class backgrounds – but I've studied, I've gone abroad, got myself an international degree, and now I've started earning well.” [5]

“ I won't go and throw away £1,000 on a bag just because it's a particular brand. I need to see value in that brand... Only then will I spend that kind of money

Sushmita Balasubramaniam, IMRB (2014)

And increasingly, it's these educated young professionals who are the face of modern luxury in India. They have high disposable incomes, are well-travelled, and have had exposure to international fashions, trends, and products. But despite having more money to spend, they've retained their middle-class mindset. “I won't go and throw away £1,000 on a bag just because it's a particular brand,” says Balasubramaniam. “I need to see value in that brand, either in terms of craftsmanship, or how it will add to my own image among my peer group, or something else. Only then will I spend that kind of money.” [5]

But according to Som, it's not cost-based buying – it's value-based buying. "When I've talked to companies in the past," he says, "they are baffled by how the Indian consumer makes purchase decisions." He gives the example of how people from the East and the West differ when it comes to buying things like music systems. In Europe, where Som is based, people make that buying decision based on the quality and the intricacies of the sound – whereas in India, they turn up the volume and see how high it will go. "The music system in India is bought at the point of sale when the customer wants to turn the volume up to the highest setting to evaluate the power of the system," Som explains. "Hardly in [their] whole life will [they] listen to music at that volume, but that's the way they decide. The Indian (or Brazilian or Russian) customer, they want to check that the cost they pay is giving them the maximum value." [1]

In the luxury industry, this is particularly important to understand – because luxury goods are simply not sold this way. In India, when people buy jewellery, they want to know the amount of gold used, the making charges, and every single expense they're going to incur in the total calculation before they'll shell out the money. But if you want to buy Cartier jewellery, says Som, you can't do that. [1]



Indian consumers are looking for value when buying luxury products and services

Abhijit Bhatlekar (2009)

## AN IMPORTANT MARKET?

In India, luxury products have grown by about 22% in the last few years, compared with luxury services at 15% growth and luxury assets at 9.4%. [4] At the CII Dialogue on Luxury in New Delhi in November 2013, Stefano Canali told attendees that India could become an important luxury market in the next decade – provided the country's policymakers made it a conducive market for business and did away with high import duties and other impediments, including lacking infrastructure. While Canali has 70 boutiques in China, it has fewer than 10 in India – and while many Indians do buy Canali products, they buy them from other markets such as Singapore and Dubai, so India is losing out on an opportunity for growth. [6]

❗ I won't go and throw away £1,000 on a bag just because it's a particular brand. I need to see value in that brand... Only then will I spend that kind of money

Sushmita Balasubramaniam, IMRB (2014)

And this has been India's biggest challenge in terms of luxury goods. There are two types of buyers, says Som. First are the people who have everything, and just want to splash out on gifts for themselves. Since the prevailing mindset in emerging markets is cost-conscious, this type of buyer will wait for until the next trip to Dubai, or if there are several things to be bought, they'll take a trip exclusively for the purpose of shopping. "The cost of flight tickets is \$300 per person, so they could fly there and back and it would still be cheaper than buying those products in India," says Som. "So Indians are buying. Just not in India." [1]

The second kind of buyer, says Som, is the Haryana farmer who wants to buy luxury items for his daughter's wedding, or a businessperson from a Tier-II city who has neither a passport nor the will to travel – but has plenty of cash. These buyers will make their purchases in India, but they're also more likely to want to play by Indian rules – which means negotiations, payment in cash, and freebies at the end of the purchase. "This is a big challenge for luxury companies," says Som, "because it means you are diluting the experience you provide to your customer." [1]

But these small-town and rural buyers may be the driving force behind explosive growth in luxury over the next decade – and so Balasubramaniam believes they should be kept front-of-mind for brands planning to enter the country. [5]



Connecting with buyers can be challenging for brands new to the Indian luxury market

Mosnar Communications (2013)

## INSIGHTS AND OPPORTUNITIES

For brands that are still new to the Indian market, connecting with buyers is where the real test lies. It requires foresight, patience, and the will to meet people in the middle. "The biggest challenge is that while there may be awareness of the brands, the actual knowledge of what they stand for is low," explains Balasubramaniam. The average Indian is not used to spending this kind of money – so a product that bridges that divide and gives them a taste of what they'd be getting would help them take that first step towards luxury buying. [5]

Once I've bought, say, a spectacle frame for Rs 25,000, buying a bag for Rs 100,000 becomes easier – because I've seen the kind of value I can get, and I have the money

Sushmita Balasubramaniam, IMRB (2014)

"If I had to draw a parallel, it would be like phone apps," says Balasubramaniam. Many paid-for apps let you download a trial version to get a sense of what the app is about -and if you like what you see, you can enjoy the full features at a premium. "Once I've bought, say, a spectacle frame for Rs 25,000 (£250)," she continues, "buying a bag for Rs 100,000 (£1,000) becomes easier – because I've seen the kind of value I can get, and I have the money." [5]

But companies wary of diluting their brands are still watching and waiting. And in the meantime, Indians are buying overseas. "India is losing huge amounts of resources because people who could have bought in India are buying and spending money abroad," claims Som. By creating hurdles for the industry, the Indian government is stunting the growth of the country's luxury goods market, especially in terms of international investment – and the market simply isn't being given the opportunity to mature. "People are moving to affordable luxury rather than real luxury," says Som.[5]

Mridu Khullar Relph is a writer, entrepreneur, and content strategist. She has written and consulted for The New York Times, Time, CNN, ABC News, The Independent, The Christian Science Monitor and more. More details can be found on her [website](#).

## KEY STATISTICS

- India's \$7.58 billion luxury market has grown 15% in since 2010 [2]
- India's potential luxury market size is 120% to 150% larger than its current size [3]
- In India, luxury products have grown by about 22% in the last few years, compared with luxury services at 15% growth and luxury assets at 9.4% [4]
- Luxury brand Canali has 70 boutiques in China, but fewer than 10 in India [6]

## RELATED ON CANVAS8

['Moët Hennessy: bubbling up in India'](#) (January 2014)

['Keeping up with the Kapoors'](#) (October 2013)

['Culture luxe: breaking into emerging luxury markets'](#) (May 2012)

['Hermès saris'](#) (December 2011)

['India's luxury market'](#) (October 2010)

## RELATED TABS

[East/West](#) - The Easternisation of Western culture, and vice versa, caused by shifting community dynamics.

[Informed Consumerism](#) - People want to know more about what they are consuming.

## SOURCES

1. Interview with Dr Ashok Som conducted by author
2. 'Luxury market saw modest growth in 2012: CII report', Livemint (November 2013)
3. 'India's Not Quite On The Brandwagon', Forbes India (July 2011)
4. 'India's new consumer trend: cost-conscious luxury', Hindustan Times (November 2013)
5. Interview with Sushmita Balasubramaniam conducted by author
6. ''Closet consumers' provide boost to Indian luxury market', My Digital FC (November 2013)

## Want to know more?

Canvas8 are a leading behavioural insight practice. Working across media, communication and product design, we harness a range of research methods to reveal practical insights into what audiences really think and do.

## EXPLORE THE PLATFORM

Unrivalled resource of 29,000+ articles on global consumer behaviour, available exclusively to members.

Your account manager:

[karenm@canvas8.com](mailto:karenm@canvas8.com)

## BECOME A MEMBER

A Canvas8 membership allows you to continually monitor changes in human behaviour by carefully blending multiple disciplines into a more holistic, living view. Delivered to you in a one platform and designed for businesses that need results from their insights.

Dominic Rowe | Group Commercial Director

[dominic@canvas8.com](mailto:dominic@canvas8.com)

## BESPOKE SOLUTIONS

From ethnographic research to strategic planning workshops, we offer a range of solutions tailored to enhance your understanding and inspire creativity.

James Cunningham | Group Head of Strategic Partnerships

[james@canvas8.com](mailto:james@canvas8.com)