

The Rules of Consumption

Radha Chadha, managing director, Chadha Strategy Consulting, is one of Asia's leading marketing and consumer insights experts. After working with leading advertising agencies – JWT, Ogilvy & Mather, Grey Worldwide, and Bates Asia – Chadha established her own brand consultancy in 2000 in Hong Kong.



During her advertising career Chadha held senior strategic planning positions, and led the thinking on global brands such as HSBC, American Express, British Airways, Glaxo SmithKline, and Mandarin Oriental. She has, over the years, worked across a variety of Asian markets: China, India, Japan, South Korea, Hong Kong, Taiwan, Singapore, Malaysia, Philippines, Vietnam and Cambodia. She is also a faculty member of the prestigious Tsinghua Ogilvy Branding States Program, a collaborative effort between Beijing's Tsinghua University and Ogilvy & Mather.

Chadha, who along with Paul Husband is the co-author of the treatise *The Cult of the Luxury Brand – Inside Asia's Love Affair with Luxury*, spoke to Nupur Chakraborty on the nitty-gritty of creating the rules of consumption in India, on why comparisons with China are inescapable as India's young market lays the ground and ground rules for global luxury brands, and on how the future of retail spaces can make or break India's luxe dream.

Asia is now the world's largest market for luxury brands, accounting for as much as half of the \$80 billion global luxe industry. That's a stunning statistic!

It sure is. When I say half the world sales are contributed by Asians, it includes sales made in Asian stores – accounting for 37 per cent – as well as purchases made by Asians in overseas markets. In short, Asian retailers and shoppers make up close to US\$40 billion of luxury product's sales worldwide.

The primary driver of the phenomenon is surely the two decades of the Asian Economic Boom that has changed the psyche and character of the inhabitants of countries in the Far East and Southeast Asia especially. Incomes have risen, but what has risen even more significantly, is a consumer's place in society.

What you carry on your person, in your homes and offices, reflect your place in society. For instance, in Japan, the traditional class systems have gotten diluted – now your status is defined by how much money you make.

Over these years of the boom, what emerged was a 'luxury brand class order', if I may call it that. This 'class order' now defines your identity, who you are, and also symbolises your achievements in life.

Definitions differ as per purchasing power and a country's economic well-being. How does a luxury brand define itself in a virgin territory?

Certainly, a luxury brand communication involves image, perception and aspiration. This is where communication is extremely important. Educating consumers is a must-do, especially in a virgin territory as the Indian market is at the moment. One needs to define what I term as 'the pecking order'.

And, it is largely the media that carries forward brand values to consumers. In both China and Japan, hundreds of fashion and lifestyle magazines carry extensive information on luxury brand products and their values, and offer details to consumers. This may be surprising, but China alone has close to 300 fashion magazines that literally create and promote the market for these brands!

In Japan, there are magalogs cataloguing the character and product launches from these brands along with where-from and how-to details on shopping and usage.

What are the biggest glitches that luxury retailers face in India?

Naturally, as the cliché goes, space is the biggest crunch. To some extent, the immaturity of luxury retail spaces is natural – India is, after all, still a very young luxury market, as compared to, say, China.

The comparison is inevitable because the heightened interest in India today is because of the unprecedented success of luxury brands in China. A decade ago, China hardly looked like a destination a luxury brand would consider. Today, the Chinese consumer is the darling of the luxe world – this booming market now accounts for 10 per cent of global luxe sales.

How is the Indian market delineated?

India today looks a lot like the China of 1996. The companies that have prospered most in China are the ones that entered early. For instance, there is Louis Vuitton, whose global strategy is about entering future markets early, and waiting for the market to blossom. Unlike many other brands that prefer to enter when a market is more ready, LV believes in digging in early and staying for the long haul.



In effect, LV lays the 'rules of consumption' – both for the market and in terms of benchmarks for all following brands.

India's luxury market is still small – an estimated US\$100 million at best. However, it is the next China in terms of eventual market size.

In the India of the 21st century, there are two distinct consumer categories as far as a luxury brand is concerned. One is the 'old money' group, and the other, the 'nouveau riche'. The first segment was always there – industrial families of long standing, passing the mantle and the wealth from one generation to the next. Luxury for this set transcends material acquisition of high-end branded goods.

The new generation of 'old money' is a sophisticated lot – they have schooled at Harvard and Wharton, Cambridge and London Business School. What is most interesting about them is that despite their immense international exposure, they retain Indian nuances. They do samosas and chai as effortlessly as they do wine and cheese.

The 'nouveau riche' set, on the other hand, is new to luxe. The newly prosperous in India – a product of India's liberalisation of the '90s – include entrepreneurs from fields as diverse as IT and pharmaceuticals, as well as wealthy farmers from states like Punjab. Not all of them are in a hurry to acquire luxury, though. There are entrepreneurs like Infosys founder NR Narayana Murthy who travels economy-class despite heading a highly successful IT business, and there are others who symbolise "high living, limited thinking" – like the rich classes from Haryana, Punjab and Delhi, for whom the price of possession is a tool to brand themselves in society.

Unlike the wealth of the 'old money' set, new money in India is not necessarily sophisticated. Understanding of the product or brand is not important – what is, is the bling tag. A \$4,000 Gucci bag, which will brand its possessor immediately to society at large, is what will speak. This is especially true of Delhi society, where showing off has always been the rule of consumption.



How does India compare against luxury shopping stops like Dubai and Hong Kong? Does the higher duty structure affect sales?

Import duties and tax structures are certainly difficult in India, which translates to higher prices for Indian consumers. However, what is significant is that luxury products are not any cheaper in other Asian markets. On average, the price of a luxury product in Japan is about 40 per cent higher than in Europe. In China, it is about 25 per cent more than, say, in Paris. Ultimately, it boils down to market characteristics – consumer education, evolution and retail spaces that draw in the aspirational sets to take home a piece of that luxury. Whatever the price.

What is your take on luxury retail spaces in India?

Ironically, it's a case of water, water everywhere, but not a drop to drink! None of the 350-odd malls that will be operational in India by the end of this year, have the necessary class and ambience for luxury retailing. India's high streets are not available and are, in any case, tacky and chaotic.

Space developers need to understand that luxury brands always like to be in control of their environments. A good example is presented by how Ashish Chordia, the entrepreneur behind the super-luxurious Thanks multibrand store in Mumbai, went as far as to extensively touch up the store's immediate neighbourhood and landscape it into a driveway and a swank valet parking facility.

For the short term, at least, five-star hotels are the answer. However, there are no five-star properties in India which offer the volume of space to house a differentiated luxury retail 'zone'. Which is why, a luxury brand does not have a specific retail destination in India to target. In New Delhi, for instance, Valentino is open at the Shangri-La hotel; Louis Vuitton, Hugo Boss and Bulgari are at The Oberoi; Mont Blanc and Aigner are at Maurya Sheraton; and Chanel sits in solitary splendour at The Imperial.

Now, contrast this with China's current environment. There are highly defined luxury retail addresses. The Palace Hotel in Beijing, Three on the Bund, or the Plaza 66 in Shanghai, all have large-enough tranches of retail space to house scores of luxury brands in a much-differentiated ambience.

Again, you must remember this – China's luxury retail business is well over a decade old. They were in pretty much the same state as India is now, as far as retail space was concerned. The market has evolved in the intervening years, and so have the retail spaces, education, discernment... everything.

India's retail scene is looking up. DLF is opening Emporio, a 300,000 square feet luxury mall in New Delhi's Vasant Kunj area anchored by Saks Fifth Avenue, while the Citywalk Dome – also in New Delhi – aims to top a premium-end mall quite literally with a dome housing luxury brands – it has signed up Ferragamo, Ferretti and Aigner, among others.

The Fashionista Dream Is Alive And Kicking. But It's No Longer Strictly Elitist! With The US And Europe Still Grappling With Recession, [Global Luxury Apparel Retailers](#) Are Eyeing Markets Like India, Which Has Put Itself Firmly On The Path Of Recovery.

Reworking Their Business Model By Focusing On Affordable Luxury, International Majors Are In Talks With Indian Players To Target Aspirational But Value-Conscious Consumers.

While Retail Chain Major Shoppers Stop Is All Set To Launch Playboy Brand Of Unisex Wear, Textile

Conglomerate S Kumars Group Is Bringing In Three International Brands By The End Of This Fiscal.

Several High-Priced International [Apparel Brands](#) Were Earlier Forced To Close Shop Due To Sluggish Demand. Few Other Brands Like Jimmy Choo And Bottega Veneta Changed Hands From The Murjanis To Genesis Colors And Springfield In Order To Sustain Growth.

Now, Global Brands Are Relying On Indian Retailer's Understanding Of The Local Market While Indian Retailers Are Reworking The Price In Accordance With Preference Of The Consumers.

"Indian Retailers, Tying Up With International Brands, Are Giving Them An Insight Of The Indian Market And Taking The Responsibility Of Marketing On Franchisee Basis, Which Is Being Preferred By The Overseas Brands", Says Rahul Mehta, President Of Clothing Manufacturers Association.

Shoppers Stop, Which Had Launched Foreign Brands Like MAC, Mothercare And Austin Reed Among Dozen Of Global Brands, And Now Plans To Add About Half-A-Dozen International Labels Soon.

"We Have Recently Introduced European [Jeanswear](#) Brand Mustang And Will Be Launching Playboy Apparel (Avinix Fashion) And Luxury Cosmetic Brand Guerlain (Baccarose)," Says Govind Shrikhande, Chief Executive Officer Of Shoppers Stop. India Is Seen As A Key Growth Market And Is Getting Positive Response From Several International Brands, Added Mr Shrikhande.

S Kumars Group, Which Tied Up With Italian Brand Oviesse This Year, Is In Talks With Other International Brands. Nitin Kasliwal, Managing Director Of S Kumars Nationwide (SKNL), Said, "We Are In Advanced Stage Of Talks With International Apparel Brands Keen To Tap The Indian Market Soon. Some Of These Brands Are Top-End Luxury Brands." Brandhouse Retails, Apparel Retail Arm Of SKNL, Will Look After The Retail Expansion And Marketing Of These Brands In The Country.

Arvind Brands, Which Has A Licence To Market Premium Segment [Men's Wear](#) Brands Such As Arrow

And Gant, Has Launched 'Izod' In India, A Label Of Global Apparel Firm Van Heusen. In Line With Others, Murjani Group That Brought Brands Like Calvin Klein, Tommy Hilfiger, Gloria Vanderbilt And French Connection Funky Wears For Youngsters FCUK, Has Also Launched An On-Line Sales Service For The Brand.

Industry Analysts Contend That Earlier The Global Luxury Brands, Which Came In India, Were Highly Priced For The Indian Consumers. Now, In Order To Sustain In The Market, Most Of Them Have Started Discount Selling. The Big Brands Mega Carnival In Mumbai Recently Offered Almost 80% Off International Brands Like Roberto Cavalli, Givenchy, Davidoff, Chopard And Calvin Klein, To Name A Few.

"Market For Luxury Brands Is Yet To Develop In A Country Like India, Where Demand Is Rising With Consumer's Purchasing Power," Said Tarun Joshi, Managing Director Brandhouse.

According To Industry Analysts, The Market For Luxury And Premium Brands In India Is Estimated At About Rs.6,000 Crore- Rs.7,000 Crore And Growing At About 25-30%. However, Luxury Is Still In Its Nascent Stages As Only 8-10% Of The Indian Population In Metros Is Exposed To Such Brands. Overall, Organised Apparel Retail Contributed More Than 35 % Of The Entire Organised Retail Market Aggregating Over \$ 60 Billion.

There's always a market for top quality, even at top dollar. "This climate has simply forced luxury brands to be much more strategic in their approach to marketing," says Gregory Furman, of the Luxury Marketing Council, an association for luxury goods and services companies. "One of the ways to do that is through e-mail marketing." Furman suggests "upselling your existing customers based on their purchasing histories, offer that customer an exclusive limited-time deal for a category of products from which they've never made a purchase," says Furman.

To reach more affluent buyers, you might team up with other luxury brands to pool customer databases and marketing resources. Furman suggests partnering with, say, a high-end shirtmaker and an upscale winery to host an event. You invite your customers, they invite theirs, and everyone gets the chance to woo some more potential shoppers.

In tough times, it's more important than ever to be in the right place. "Great distribution is critical," says Alexandra Wilkis Wilson, owner of a website that sells designer clothing at discount prices. That may not mean glamming it up in high-end department stores. "Department stores often want exclusive agreements that can be limiting for a small company," Wilkis Wilson says. Your games will probably get

more attention in small specialty stores that sell luxury gifts or keepsake toys. Online retailers such as Vivre.com, which specializes in unusual and artisan gift offerings, might also be a good match, says Wilkis Wilson.

And don't forget to take advantage of social networks. "Creating accounts through social media is the easiest and most cost-effective way to market your brand," says Wilkis Wilson. She recommends using Facebook and Twitter to build a fan base.

For information on how your luxury company can develop and expand its social media marketing and increase online shopping contact SOS eMarketing.

SOS eMarketing utilizes marketing analysis and planning to determine the best use of current media and technology. These include:

Is the internet suited to luxury brands?

Customers enter the world of Vuitton in a Vuitton store, a prestigious and aesthetic experience. The luxury shopping experience differs entirely from the conventional shopping experience in that customers require a high sensory interaction with the products by experiencing the touch, feel & smell of the item.

Then through qualitative print advertisements, customers are reminded of the brand's glamorous image and latest products driving footfall to the store. The brands control the customer experience in a very limited number of touch points and that is what makes them successful high-end luxury brands.

More interestingly, internet penetration is on the rise at a high pace in most countries. In 2005, the United States' online penetration reached a whopping 69%. On a European scale, Sweden is considered the highest in internet usage with 75% of its population online, the UK & Germany also have also high online usage with 62% and 59% respectively. It is worthwhile to consider that the UAE is catching up its online predecessors with 36% of online penetration, the highest among Middle East countries, and this number is at rapid increase.

The retail experience has varied in its character. The introduction of online retail has significantly changed the overall shopping experience. The term e-tail encompasses so many experiences such as grocery e-tail, auction e-tail, specialty e-tail and so on. A new experience has been added to online shopping which is the rise of e-luxury.

The demand for online luxury is on the increase. Recent reports indicate that the wealthy are almost all online. We are all quite familiar with Saks Fifth Avenue, Chanel & Louis Vuitton, but have we heard of e-luxury.com, ice.com or mondera.com? Marketers of luxury in the States & Europe have embraced these sites as part of their communication platform, yet online in the GCC, where the number of residents who can afford luxury brands are almost double than abroad, is still underused and almost completely

ignored.

It is understandable from their point of view that the Internet makes the process much faster and in the world of luxury, where the control of retail experience is paramount, Internet can come across as a scary medium, quite understandably. The online experience can be misconstrued as being too mass, or too public, lacking in the individualized luxurious experience that most of these brands demand.

Ironically, if the internet was a one way communication medium, luxury brands would embrace it with no fear. We can say that even though the right audience is online and luxury brands can target their exclusive market with great precision in addition to offering a stunning visual experience equal to in-store, the brands are still leery of the interactive nature of the Internet.

Yet by looking at the exponential growth of the Internet in the GCC & Middle East, Brand Managers understand that it can not be disregarded anymore. The challenge for those brands on the Web is... re-create the retail customer experience.

What's amazing is... it's possible. Luxury brands can re-create a similar online scenario as in the offline world. They can communicate the brand messages through high-end creative emails, online ads and page sponsorships and build a luxurious virtual presence through a website or micro site.

The sensorial customer experience is then re-created and controlled on the website: thanks to the visual and sound experience, the usability, customer service and customization, all key when making a luxury brand's venture on the Internet a success.

The only difference is the speed...Actions on the Internet happen faster. But in today's world, all things occur faster. Therefore speed and accuracy will be highly appreciated among the online users.