

## **India and China: An Inspiration and Source for the Global Luxury Market**

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# The Emerging Markets

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Emerging market Luxury consumers concerns are higher in Brazil, China, Russia and India.

More unpacking and interrogating of the nature of the concern for Luxury consumption is required to gauge its relevance for corporate strategy, but it shows the awareness is now there.

Consumer awareness takes time to translate into consumer behaviour, because we cant chose what doesn't exist, or behave differently when we are unclear about our options.



# The Emerging Markets

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At a global level some analysts say the world has lost almost half its wealth since September.

The current crisis I believe marks a major shift in global power. At root it is a Western financial crisis. The impacts will not only be financial, but also cultural, impacting on the status of the West, and on consumer culture. The implications for luxury are therefore deeper than our immediate concerns about profit and loss.



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**LUXURY IS DEFINED BY CONSUMERS**

**LUXURY IS A GLOBAL BUSINESS**

**UNDERSTANDING CULTURE IS A KEY**



# Luxury is a Business: DB estimates 2007

- **LVMH:** € 17.3 billion, **Christian DIOR**, 0.9 billion
    - Louis Vuitton, Moët & Chandon Hennessy; Krug, Christian Dior Parfums, Fred Joaillerie, Celine, Fendi, Loewe, Selective Distribution
    - VUITTON, 3.5 billion, Ebit 45.5 %
  - **Richemont Group:** 18' brands, € 3.7 billion
    - Cartier, Van Cleef & Arpels, Piaget, Baume & Mercier, Chloé, Lancel, Montblanc
    - CARTIER: 2 billion Ebit 24.5%
  - **Gucci Group** (PPR), € 3.6 billion
    - Gucci, Alexander McQueen, Bottega Veneta, Boucheron: GUCCI DIVISION, 1.85 billion EBIT: 28%
  - **Hermes** : € 1.7 billion , Ebit 25.6%
  - **Burberry:** € 1.3 billion , Ebit 22 %
  - **Bulgari:** € 1 billion, Ebit 17%
  - **Swatch Group:** 18 brands : CHF 3.4 billion; Omega: 1.139 (648 millions Euros) Ebit 27%
  - **Marzotto**, € 1.8 billion; Valentino
  - **Prada:** € 1.4 billion; Miu Miu, Jil Sander, Helmut Lang
  - **Chanel:** Eres, Bell & Ross, Holland & Holland
- And other luxury majors:
- **Polo Ralph Lauren** (€ 2.6 billion), **Tiffany** (€ 1.8 billion), **Armani** (€ 1.3 billion), **Coach** (€ 1.1 billion)...





# Definition of Luxury

- Core Values

- Rarity
- Excellence
- Authenticity
- “*Maison*”  
Savoir-faire
- A creator’s vision
- Very limited access
- Perennial
- Patrimonial
- Bourgeois

- Positioning

- Niche
- The ultimate in the category
- Historical legitimacy
- Mythic:  
perceived for most as inaccessible
- luxury for a few because inaccessible for most.

- Customers

- Elite & social statutory benefit (not only determined by financial elements)
- Loyal / Exclusive
- *For the happy few (look & feel of an exclusive club)*
- Need to drive away potential middle customers:



## ALCHEMY BETWEEN :

**“MARKETING &  
SALES ”**

**“CREATIVITY &  
ART ”**



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## ALCHEMY BETWEEN :

**“CRAFTSMANSHIP ”**



**“INDUSTRY ”**







## Best Global Brands 2008

2008 Rank	2007 Rank	Brand	Country of Origin	Sector	2008 Brand Value (\$m)	Change in Brand Value
1	1		US	Beverages	66,657	2%
2	3		US	Computer Services	59,031	3%
3	2		US	Computer Software	59,007	3%
4	4		US	Diversified	53,086	3%
5	5		Finland	Consumer Electronics	35,942	7%
6	6		Japan	Automotive	34,050	6%
7	7		US	Computer Hardware	31,251	1%
8	8		UK	Food/Beverages	31,040	6%
9	9		US	Media	29,211	0%
10	10		US	Internet Services	25,590	42%
11	11		Germany	Automotive	25,577	9%
12	12		US	Computer Hardware	23,509	6%
13	13		Germany	Automotive	23,295	3%
14	16		US	Personal Care	22,059	8%
15	15		US	Financial Services	21,246	3%
16	17		France	Luxury	21,101	6%
17	18		US	Computer Services	21,005	12%
18	14		US	Tobacco	21,000	0%
19	11		US	Financial Services	20,174	-14%
20	19		Japan	Automotive	19,079	6%
21	21		South Korea	Consumer Electronics	17,685	3%
22	-		Sweden	Apparel	13,810	NEW
23	27		US	Computer Software	13,831	11%
24	13		US	Consumer Electronics	13,724	24%
25	25		Japan	Consumer Electronics	13,552	3%
26	26		US	Beverages	13,249	3%
27	23		UK	Financial Services	13,143	-3%
28	24		Switzerland	Beverages	13,053	3%
29	29		US	Sporting Goods	12,672	6%
30	28		US	Transportation	12,621	3%
31	34		Germany	Computer Software	12,228	12%
32	31		US	Computer Hardware	11,095	3%
33	30		US	Alcohol	11,438	-2%
34	22		US	Financial Services	11,295	-21%
35	38		Sweden	Home Furnishings	10,912	8%
36	36		Japan	Computer Hardware	10,876	3%
37	32		US	Financial Services	10,773	-5%
38	35		US	Financial Services	10,331	-3%
39	40		US	Food	9,731	4%
40	44		Japan	Consumer Electronics	8,772	13%
41	39		Switzerland	Financial Services	8,741	-11%
42	37		US	Financial Services	8,690	-10%
43	42		Netherlands	Diversified	8,323	8%
44	-		Canada	Media	8,313	NEW
45	46		Italy	Luxury	8,251	7%
46	48		US	Internet Services	7,001	7%
47	50		US	Computer Services	7,048	6%
48	43		Germany	Diversified	7,041	3%
49	41		US	Automotive	7,040	-17%
50	45		US	Automotive	7,005	-1%

2008 Rank	2007 Rank	Brand	Country of Origin	Sector	2008 Brand Value (\$m)	Change in Brand Value
51	53		France	Personal Care	7,508	7%
52	52		US	Media	7,393	4%
53	54		Germany	Automotive	7,047	8%
54	47		US	Financial Services	7,022	-6%
55	49		France	Financial Services	7,001	-4%
56	53		US	Food	6,646	2%
57	57		US	Personal Care	6,437	7%
58	62		US	Internet Services	6,434	19%
59	55		US	Computer Hardware	6,193	0%
60	56		France	Luxury	6,155	9%
61	58		US	Food	6,105	0%
62	61		Spain	Apparel	6,055	15%
63	63		Switzerland	Food	6,092	5%
64	60		US	Restaurants	6,082	-2%
65	55		US	Internet Services	6,056	-9%
66	67		US	Computer Hardware	6,008	2%
67	68		Germany	Automotive	6,007	11%
68	65		US	Diversified	6,008	1%
69	66		US	Personal Care	6,064	3%
70	69		Germany	Sporting Goods	6,072	6%
71	71		Switzerland	Luxury	6,056	8%
72	72		South Korea	Automotive	6,046	9%
73	-		Canada	Consumer Electronics	6,002	NEW
74	70		US	Personal Care	6,036	1%
75	75		Germany	Automotive	6,003	1%
76	73		France	Luxury	6,075	8%
77	51		US	Apparel	6,057	-10%
78	78		Japan	Consumer Electronics	6,081	4%
79	83		Switzerland	Luxury	6,036	10%
80	75		US	Luxury	6,008	5%
81	74		US	Restaurants	6,057	4%
82	90		Germany	Financial Services	6,033	2%
83	91		France	Alcohol	6,051	6%
84	84		UK	Energy	6,011	3%
85	88		US	Restaurants	6,079	7%
86	81		Netherlands	Financial Services	6,068	-3%
87	72		US	Consumer Electronics	6,021	-12%
88	85		US	Consumer Electronics	6,082	2%
89	91		UK	Alcohol	6,040	6%
90	92		Japan	Automotive	6,068	7%
91	84		Italy	Luxury	6,085	9%
92	90		US	Personal Care	6,082	4%
93	-		Italy	Automotive	6,027	NEW
94	-		Italy	Luxury	6,026	NEW
95	87		France	Alcohol	6,013	-3%
96	-		US	Hospitality	6,002	NEW
97	93		Netherlands	Energy	6,071	4%
98	85		Germany	Personal Care	6,001	1%
99	-		US	Transportation	6,009	NEW
100	-		US	Financial Services	6,038	NEW

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Luxury used to be defined by the industry

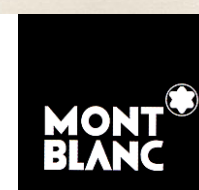
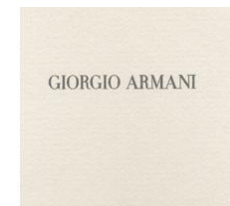
It is now defined by the consumer

And is a moving target



# India as a Destination

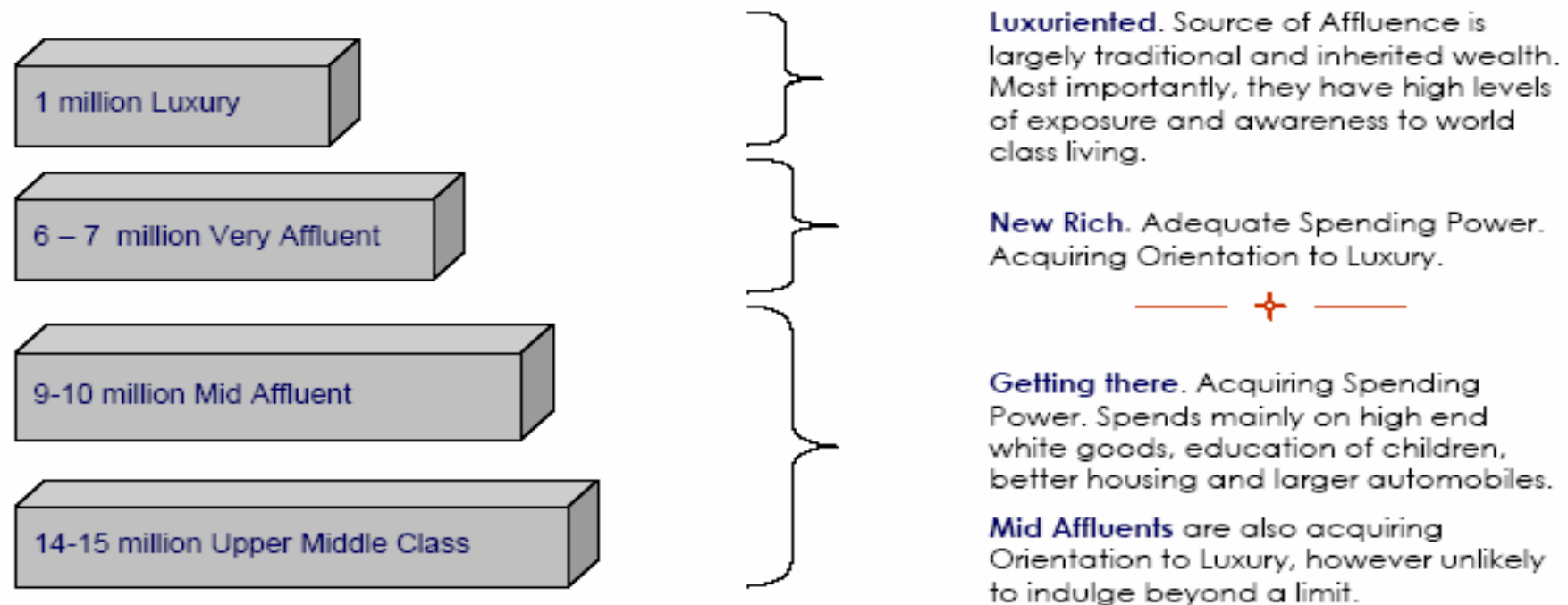
- India is emerging as a one of the fastest growing markets for premium and upscale consumer products
- A large number of International Luxury and Upscale Brands and Retailers interested in entering India
- Imperative to have an understanding of the lifestyle and consuming habits of the Indian affluent consumer





# Why India?

## The Indian Affluent Pyramid



**Affluent, consuming Luxury products will double in next five years**



# THE MANY FACES OF THE INDIAN WOMAN



NO LONGER ONE UNIFYING DESCRIPTION OF THE NEW INDIAN WOMAN



# LLADRO



- Global spend on a Lladro- \$490
- Indian spend on a Lladro- \$1700
- Understanding relationship between worship, good fortune & luxury has been the reason to its success





# JUDITH LEIBER



- Judith Leiber launched "Ganesh" the God of good luck
- Ganesh retails at \$6500





# China as a Destination

- Wealthy Chinese are about 1% of the household but growing at 16% per annum
- Concentrated in East & Central South regions and 30% in 4 largest cities
- About 50% of this wealthy consumers were not classified as wealthy four years ago and half of those who will be classified as wealthy in five to six years are not wealthy today







# Why China?

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In 2008, the number of wealthy households in China reached 1.6 million. By 2015, it will have more than 4 million households, making it the world's fourth largest country in terms of its number of wealthy households after the US, Japan and the UK.

Moreover, in such a fast-growing and young market, companies can do much to shape the taste, spending habits and loyalty of consumers in a wide range of industries such as automotive, real estate, banking services, consumer electronics and consumer luxury goods.

# The Many Faces of the Chinese Consumer





# The Chinese Consumer

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Wealthy Chinese consumers (like Indian consumers) are unique: they differ from both their global peers as well as less wealthy consumers

They are on average 20 years younger than those in US and Japan.

They are more educated than other Chinese consumers and are more often self employed

The wealthy trust foreign brands more, find it difficult to keep a work life balance and are more comfortable about borrowing money





# Segments

## Seven segments

	Avg.HHI RMB Thousands	% of wealth	Key characteristics
<b>1</b> Luxuriant	590	22	<ul style="list-style-type: none"> <li>Highest income and located mainly in tier-1 cities; higher proportion of females</li> <li>Care about health, the environment and the quality of family life</li> <li>Passionate about luxury goods</li> <li>Sophisticated, low-key style; fashion leaders</li> <li>Quality matters more than brand; against look-alike products</li> </ul>
<b>2</b> Demanding	586	13	<ul style="list-style-type: none"> <li>Higher income than most yet amongst the hardest working</li> <li>Prefer flashier products that help them stand out from the crowd</li> <li>Less willing to pay for the best; hard to please</li> <li>Not confident future earnings will grow significantly; dislike borrowing</li> </ul>
<b>3</b> Flashy	542	22	<ul style="list-style-type: none"> <li>Slightly above average income, with greater numbers in tier-1 cities</li> <li>Big luxury goods spenders and showy; the brand is important</li> <li>Prepared to buy look-alike products</li> <li>Go out of their way to find the cheapest price</li> <li>Confident financially but continue to work hard; care less about health and the environment</li> </ul>
<b>4</b> Urbane	511	14	<ul style="list-style-type: none"> <li>Lower than average income, with greater numbers in tier-1 cities; higher proportion of males</li> <li>Care significantly about health, the environment and the quality of family life</li> <li>Sophisticated, but low-key and spend less on luxury goods than those in the Luxuriant segment</li> <li>Care more about product quality than the brand; against look-alike products</li> </ul>
<b>5</b> Climber	493	8	<ul style="list-style-type: none"> <li>Lower than average income, with greater numbers in tier-2/3 cities</li> <li>Status conscious and keen to socialize with the up-and-coming and influential</li> <li>Appreciate luxury goods but do not regard them as a necessity</li> <li>Not willing to pay more for better products; go out of their way to find the cheapest price</li> <li>Less confident financially</li> </ul>
<b>6</b> Down-to-earth	492	10	<ul style="list-style-type: none"> <li>Younger and newer to luxury and wealth; greater numbers in tier-2 cities</li> <li>Value family life over social life</li> <li>Care little about higher-end products; little interest in foreign brands</li> <li>When they do spend on luxury, they stick to quality and low-key products</li> <li>Confident financially, but feel peer pressure to earn more</li> </ul>
<b>7</b> Enthusiast	479	11	<ul style="list-style-type: none"> <li>Among the lowest income, with greater numbers in tier-2 cities</li> <li>Enthusiastic about luxury goods; would like to buy more than they can afford</li> <li>Very showy; like brands that help them stand out from the crowd</li> <li>Prepared to buy look-alike products; favor Chinese brands</li> </ul>

Source: Insights China by McKinsey – 2008 Wealthy Chinese Consumer Survey



