



October 2014



**Thinking Aloud**

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Dear Reader,

Prada, Tiffany, Gucci and the list of luxury brands is endless. Today, consumers are attracted by the sheer choice of owning a luxury brand, be it in accessories, wardrobe or even a mode of transport. A recent report highlighted that 25% of the world's luxury purchases are made by the Chinese alone, surpassing Japan. However, India is not far behind in this race. Shrugging away from traditional brands, backed by younger demographics and high disposable incomes, luxury brands today are slowly finding their way to every Indian's shelf. Today, luxury labels are no longer a faraway dream. For many an international luxury brand, India is no longer a testing ground, but a lucrative market. The country is more than just an emerging luxury market with high growth potential. Amid the many challenges that may come in the path of success of these luxury brands trying to make a mark in the Indian consumer's mind, luxury brand owners are looking for ways to promote themselves by crossing over to the social media sphere to interact with loyal as well as new customers.



The luxury market garners huge attention and is indicative of the new-found spending power of the consumers and their flashy consumption culture. ET takes a closer look at one such luxury item – leather and the industry in India.

In **Thinking Aloud**, Siva delves into the burgeoning luxury retailing sector in India. Over the years, trends of consumers have changed owing to various factors. Today, the rising income levels have contributed to the ascendancy of the upper middle-class into high net-worth households category of customers, resulting in high-end brands investing in innovative products specifically designed for these first-time buyers of luxury goods. Beyond conventional stores, the trends in online retailing also look favourable for the luxury goods market.

On the **Podium**, this month, COO of luxury brand Hidesign, Mr. Narresh Mehta, looks at the evolution of the leather industry and its prominence in the Indian economy. He is of the opinion that design and manufacturing competencies

are already present in the country when compared to its competitive peers. His company Hidesign, has also taken up various environmental friendly steps for the good of its consumers. Mr. Mehta highlights how Hidesign is a market leader and has helped customers discover the joy of leather.

In the **We Recommend** section, we present various articles extracted from the World Wide Web. The articles feature the future of retailing with reference to luxury goods and the way forward for marketers to capture a share in the competitive world of retailing luxury goods.

In **Standing Ovation**, we feature Bengaluru based, The Concerned for Working Children (CWC). This institution works on various issues related to children's rights including child labour and education, with a special emphasis on children's right to self-determination. Nominated for a Nobel Prize in 2012, 2013 & 2014, CWC keeps in mind the basic principles of children's rights and empowers them to identify their own problems and come out with solutions. Through CWC's efforts, children have the opportunity to also participate in local governance via children's panchayats and gram sabhas in Karnataka. More recent, is CWC's engagement with adults from marginalized communities.

Vikram upgrades the 'retail therapy' concept through his toon in **Figures of Speech**.

As always, we value your opinion, so do let us know how you liked this issue. To visit our previous issues you can visit the Resources section on the website or simply [Click Here](#). You can also follow us on [Facebook](#), [Twitter](#), [Linked In](#) & [Google+](#) - where you can join our community to continue the dialogue with us!

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## Thinking Aloud

### Luxury goods & the new Indian - Siva

India accounts for 55 billionaires in the global billionaire list, accounting for a total net worth of US\$ 194 billion. And 10 years back there were just nine Indians on that list.

Consumerism in India is seeing a fantastic upward trajectory fuelled by a very aspirational young and middle class population, plus a favourable economic environment for the past few years. And the super-rich out there are making the most of it, given the record-breaking growth of luxury goods and services that is growing at 30-35%. The Luxury market can be characterized into 3 areas; Luxury Assets (cars, homes, yachts), Luxury Services (spas, hotels), and Luxury Retail (fashion & lifestyle goods, including apparel, electronics, liquor, jewellery, accessories, footwear amongst others). The prediction is that the Indian luxury market would grow to US\$ 14 billion in 2016, up from US\$ 8.5 billion in 2013.

This combination of aspirations and rising income levels is also contributing to the ascendancy of the erstwhile upper middle-class into High Net-worth Households (HNH) category of customers. The attraction quotient of this potential market has also resulted in high-end brands investing in innovative products specifically designed for these first-time buyers of luxury goods. Their expectation, obviously, is to nurture this first-mover advantage into a life-long relationship. The fact that almost 50% of this market reside in non-metros is resulting in wider distribution

of this market beyond metro cities. BMW, for example, has a presence in Kanpur, Lucknow, Faridabad and Raipur, to name a few. And it has also invested in mobile showrooms in Nashik, Kottayam and Karnal to help develop these markets for the future.

Beyond the conventional brick & mortar store, the trends in online retailing also looks very promising for the high-end/luxury goods industry. While buying a pen-drive online and even a mobile phone costing INR 10k-15k is quite imaginable people are increasingly getting comfortable buying laptops, LED TVs and home theatre systems worth INR 50,000 - 1 lakh and beyond. Possibly, the best indicator of where this trend is destined to be, can be gauged by the recent investment by Mr. Ratan Tata in Bluestone, an online jewellery store which has already clocked in INR 50-60 crores in revenue in less than 2 years flat, and is targeting another INR 25 crores in this forthcoming festive season alone!

The luxury leather goods is one industry that has seen considerable interest from globally renowned brands such as Gucci, Dior, Burberry, Hermes, Hidesign and Louis Vuitton. And the consumer is lapping everything from wallets, handbags, footwear to belts, soft luggage and other accessories. It's a tough business with not just styles and trends changing every year, but even colours, textures and materials can have a unique story from one season to another, but has seen most excitement due to its ability to offer multiple options across products, sizes and price points.

Having said the above, the fact still remains that Luxury Retailing in India presents a fair bit of challenges. The lack of quality real estate for luxury retailing is probably the biggest impediment. Churchgate and Colaba, while equated with the high net worth geographies in Mumbai, are just too cluttered and crowded - quite unsuitable for the ambience that luxury retail demands. Secondly, import duties and FDI clauses of local sourcing may not be palatable for many of the international brands. Lack of skilled salesforce and expensive rentals also inhibit the growth of this market.

There are supply chain constraints as well. While things have been quite favourable for local sourcing and production for luxury automobile players, competition from China remains quite significant for other sectors such as the leather industry where India is still characterized by small sized players operating in a fragmented market that do not offer the economies of scale to brands desirous of sourcing locally.

Notwithstanding these challenges, the recent FDI regulations allowing international players a 51% stake in multi-brand retail, the unprecedented growth of the nouveau-rich in India and the trends in online retailing - all of these are going to contribute to an explosive growth of the luxury goods market in India.

For us, the most heartening aspect of it all is the welcome emergence of Indian brands into the luxury space, namely Hidesign, Ritu Kumar, Sabyasachi, amongst others.

May the Force be with you all.

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## Podium

### Narresh Mehta – COO – Hidesign



**Narresh Mehta is the Chief Operating Officer of the leading luxury brand Hidesign. He has 25 years of experience spanning across various industries such as FMCG, engineering, healthcare, apparel and retailing. Mr. Mehta has been associated with various companies such as Godrej, Blue Star and Oracle Finance. His last assignment was at Raymond Ltd. as Director-Business Development and Franchise Retail Operations. At Hidesign he plays a significant role in the continued profitable growth of Hidesign along with increasing customer value. Mr. Mehta brings with him extensive operations**

**expertise, strong leadership and organizational skills along with a successful record of time management. He has also been sponsored for prestigious programs such as the Strategic Management Program by Ross School of Management, Michigan University.**

**ET: The leather industry occupies a place of prominence in the Indian economy in view of its massive potential for employment, growth and exports. What makes this industry so unique in India?**

**NM:** The industry has evolved from traditional individual based production to meet high quality parameters internationally, and has scaled up substantially. It still remains skill and labor intensive so the employment potential is huge. The internal demand for high quality leather products is rising. The capability and expertise built over time can be leveraged now.

**ET: Over the years the Indian Leather industry has undergone drastic changes from being a mere exporter of raw materials to an exporter of finished and value-added leather products. Where does the industry stand today compared to its global competitors?**

**NM:** The design and manufacturing competencies are present here so value added products in accessories, footwear and apparel offer a significant growth opportunity. The other countries have remained raw material suppliers or mass producers. We are unique with our creative and design skills.

**ET: There is a lot of environmental concern associated with leather production as the use of chemicals during the transformation process leads to massive air and water pollution manufacturers are adopting international environmental norms. What are the measures undertaken by leather manufacturers in the production of 'green leather'?**

**NM:** In Hidesign's case we make eco-friendly leather, which means they are vegetable tanned, are 30% more expensive and take more than double the time to produce. We do it anyway because our values do not allow private gains at public cost. But in the end consumers don't necessarily relate to these reasons and are continually drumming on how it is good for the world. We believe our ideological choice has to fit into what the customer relates to. It has to appeal to the customers' needs. Vegetable tanning feeds the leather and makes it stronger. It is

healthier – it is better for your health as chemical chrome tanning can create allergies on your skin.

**ET: The very essence of sustenance of the leather industry in India is its rural linkages. How is this link established and why is this linkage important to the leather industry in India?**

**NM:** We are proud of our rich Pondicherry heritage and are happy to flaunt it. Right from local sourcing of materials and employment of women, we have succeeded in sustaining a community which makes our products unique and special. It is important for building a strong rural India.

**ET: Leather lends itself to fashion products as well. What are the key growth drivers of the luxury market in leather (garments, shoes, luggage, etc.) in India & what role does Hidesign play in this market?**

**NM:** Luxury is about fashion and style and scarcity. This used to be restricted to apparel till accessories became a fashion statement. Today, people want to “wear” their bags – in our stores, discerning customers actually check in the mirror to see how they look besides understanding the functionality. Hidesign as a market leader is helping customers discover the joy of leather. Our limited edition style of women’s handbags was sold out in no time. We are therefore re-launching our leather jackets and are following it up with footwear. The customer is able to differentiate us from the synthetic products and appreciates the intrinsic quality of our hand-crafted styles.

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## We Recommend Articles & Links

The World Wide Web offers one a plethora of information. Extracted off the internet, we present some links to articles, indicating the current state of the world luxury goods market from various research articles by Mckinsey and the way ahead.

### 1. The glittering power of cities for luxury growth

[http://www.mckinsey.com/insights/consumer\\_and\\_retail/the\\_glittering\\_power\\_of\\_cities\\_for\\_luxury\\_growth](http://www.mckinsey.com/insights/consumer_and_retail/the_glittering_power_of_cities_for_luxury_growth)

Principals at Mckinsey’s - Aimee Kim, Nathalie Remy and Jennifer Schmidt in their article, provides a road map of where luxury-goods companies should compete in the next decade due to an unprecedented shift toward emerging-market cities. For luxury players, cities matter more than for any other product category. The article summarizes growth cities of the coming years that will allow companies to more easily and completely focus their efforts on these higher-growth areas.

### 2. Tapping China’s luxury-goods market

[http://www.mckinsey.com/insights/marketing\\_sales/tapping\\_chinas\\_luxury-goods\\_market](http://www.mckinsey.com/insights/marketing_sales/tapping_chinas_luxury-goods_market)

A study undertaken by McKinsey & Company highlights that in the upcoming year, Chinese consumers will account for about 20% of the world's global luxury market. The research findings of this study indicate that the consumption behaviors have evolved over the years, which are listed in the article.

### **3. Succeeding in tomorrow's global fashion market**

<http://mckinseyonmarketingandsales.com/succeeding-in-tomorrows-global-fashion-market>

The global fashion and apparel market is expected to grow between now and 2020. However, not all current participants will share in this growth. Therefore, these companies will need to re-strategize and find new patterns of growth, to not only grow further, but to remain successful, or regain lost ground. The article demonstrates and put forth four disciplines in which companies will need to find new answers to old questions.

### **4. Digital luxury experience: Keeping up with changing customers**

<http://mckinseyonmarketingandsales.com/digital-luxury-experience-keeping-up-with-changing-customers>

Research undertaken by McKinsey has concluded that about three out of every four luxury shopper would insist on interacting with brands digitally. Today the luxury shopper is more mobile than ever, and this digital passion will drive shopping behavior in the upcoming years. Although today one cannot do without digitalization of their luxury brands, brands reaching out to luxury buyers have their own set of opportunities and risks, which marketers have to bear in mind.

### **5. Retail Isn't Broken. Stores Are**

<http://blogs.hbr.org/2011/11/what-i-learned-building-the-ap/>

Former Senior VP FOR retail at Apple, Ron Johnson tells us of his experience in building the Apple retail outlets. He is of the opinion that people didn't just come over at these Apple retail stores to buy the products offered to them, but also came in for the experience, for which they were willingly to pay a premium too! Therefore, the real challenge to retailers today, is how does one 'mimic' the Apple store, or other stores that seem like a good model? In the edited interview, HBR Senior Editor Gardiner Morse talks with Johnson about innovation and leadership in retail.

**Note: To access the entire article, you are required to register online on Harvard Business Review**

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## **Standing Ovation**

**The Concerned for Working Children  
(CWC), Bengaluru**



The Concerned for Working Children (CWC) is a not-for-profit secular, democratic development agency based in Bengaluru. It began operations in late 1970s, and was one the first organisations in India to focus on working children and their needs.

CWC works in partnership with children and their communities, local governments and national and international agencies to execute viable, comprehensive and appropriate solutions to address the various problems that children and their communities face.

Field programmes in Karnataka cover rural and urban areas in Bangalore, Kundapur Taluk, Bellary district and elsewhere. Through CWC's advocacy and research programmes, they have contributed extensively to policy debates around child labour and children's rights at both the national and international levels.

### **Vision:**

A sustainable and ecologically balanced world where all children are respected citizens and abled protagonists, who realise, experience and practise all their rights through their participation in equitable partnership with adults to establish and maintain together a secular, equitable, just, non- discriminatory world.

### **Approach**

CWC's work is grounded in the principles of children's rights. Their belief is not just in listening to children, but in empowering them to identify their own problems and construct their own solutions. CWC has facilitated children to form their own unions, worked to increase children's participation in governance and conducted pioneering work helping children carry out research and information management. In a first-of-its-kind intervention in India, CWC encouraged children to participate in local governance by setting up children's panchayats and gram sabhas in Karnataka. These gram sabhas have enabled children to participate in the planning, implementation and budgetary allocations of their panchayats.

In more than 30 years, CWC has touched the lives of more than 60,000 children, and in recent years, have also become heavily engaged with adults from marginalized communities, including rural artisans and craftpersons, street vendors and migrant citizens. They have also been nominated for the Nobel Peace Prize in 2012, 2013 & 2014.

For more information and to support CWC's efforts, one can visit their website at <http://www.concernedforworkingchildren.org>.

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## Empowered Learning Systems Pvt. Ltd.

101, Lords Manor, 49, Sahaney Sujan Park, Lullanagar, Pune – 411040, Maharashtra, India

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