

In the Lap of Luxury

What one generation sees as luxury, the other sees as necessity. **Susil S Dungarwal**, chief mall mechanic of Beyond Squarefeet, explains how luxury retailing has changed over the years

Luxury is something that is more of an indulgence than a necessity. Luxury brands are defined by creativity, craftsmanship, precision, high quality, innovation and premium pricing. For a long time, Indians were known for their reluctance to spend on luxury products, but the situation has changed today. With globalisation and markets opening up, Indians have now travelled around the globe and are aware of global brands. Indians are thus getting used to the luxuries of life, especially

lifestyle and luxury products. This has led to increasing demand for luxury products in India, demand that is constantly growing.

The Indian Story

Luxury retail in India began with some strategic stores placed in five-star hotels. People who stayed in five-star hotels were assumed to be individuals who had travelled widely and were brand-conscious. Those who could



Luxury Malls in India

Name	City	Average rent per square feet (in Rs)
Palladium	Lower Parel, Mumbai	175
Grand Hyatt	Kalina, Mumbai	325
DLF Emporio	New Delhi	650
UB City	Vittal Mallya Road, Bangalore	450
Bergamo	KNK Road, Chennai	200

afford a five-star hotel stay could afford these luxury items. These stores did well with virtually no outside competition. Today, most upper-middle-class Indians plan one big holiday a year abroad and around three to four holidays to a domestic destination. When an Indian travels, he likes to splurge. This habit has made Indians aware of international luxury brands, and these products have very high aspiration value. The demand for luxury products grew. But, as the Indian economy boomed, the segment had to grow beyond these five-star hotels.

Owning luxury products gives a consumer more than just the satisfaction of possessing an expensive

item: customers also enjoy a feeling of prestige and a sense of belonging to an exclusive group. Manufacturers could not afford to ignore the growing demand for luxury products. Soon they began expanding outside five-star hotels. The most obvious place to have these stores turned out to be high streets in big metros. Thus began the influx of luxury retail brands like Louis Vuitton, Rolex, Armani, Salvatore Ferragamo, Versace, Gucci, Dolce & Gabbana, Christian Dior, Tag Heuer, Rado, etc. These products started getting more and more attention with their presence in high streets. Some of the most famous high streets in the country today are Connaught Place and Karol Bagh in New Delhi, Breach Candy, Colaba and Linking Road in Mumbai and Commercial Street in Bangalore.

The Psychology of Luxury Retail

Luxury retail, anywhere, has two key aspects for success—brand establishment and recall and high disposable income. Very rarely do people purchase luxury products on impulse. It is something that the buyer has known and wanted for quite some time, and customers go to a particular place looking for a particular product. Cities like Bangalore, Delhi and Mumbai have an urban, cosmopolitan population with high incomes.



These sets of people are aware of global trends and are more than happy to adopt them. This is the prime reason why these cities saw huge investments in terms of real estate for hotels and malls. The country's first luxury malls opened in these cities.

Today, we have a DLF Emporio in New Delhi, Palladium and Grand Hyatt in Mumbai, UB City in Bangalore, and Bergamo, which is an upcoming luxury mall in Chennai. The luxury product segment in India is estimated to be around \$444 million, according to a Technopak study, and is expected to grow at a rate of 30–40 per cent. A market of this size is irresistible for any international company and every luxury brand wants a bigger share in this market. Companies like Diesel, CK and FCUK have aggressive expansion plans, making for sizeable demand for luxury retail in India.

Keeping it Luxurious

When we say luxury retail, we have to ensure that it does not get diluted to become a mass product. We cannot have luxury malls everywhere. A luxury mall has to be selective in its location and must be in just one or two places in a big metro. Now a retail company may argue that if there is less footfall it becomes unviable, but what they need to understand is that the conversion rate in a luxury mall is far higher than in a regular mall.

If a mall starts attracting mass footfalls, then the luxury product loses its exclusivity. The luxury mall should be located and designed in such a way that it keeps the masses away. This can be done by having many entry barriers, from the pricing of products to high-end ambience, features and facilities.

The most important aspect that defines a luxury mall is its location. It cannot be very far away from a catchment area—the place where one may find a sizeable population of affluent Indians who do not mind spending a lot more on their luxuries. A luxury mall cannot have a bumpy road leading to it or slums around it. The mall should have adequate parking space for big cars, SUVs or luxury cars. It should have aesthetic interiors. All these features of a mall do increase the rent of a store when compared to one in a five star hotel or high street, but that should not be an issue, because a good luxury mall assures good sales.

Besides the social and economic development of people in the country, the other factor that is increasing the demand for luxury retail in India is the Indian government's decision to allow foreign companies to own a 51 per cent controlling stake in the Indian venture for single luxury brand stores. This has also increased the interest among international players, and they have begun talking to Indian partners to actively pursue joint ventures.

The format of luxury mall is not very different from a regular mall except for the kind of crowd it attracts. A luxury mall developer must be flexible in terms of floor

A to-do list for mall development

Have a luxury mall in a prime location	Ensure that the location of the mall is free from slums around, has no bumpy roads leading to the mall and has elaborate and aesthetic interiors
Make sure the branding of such a mall is done in right medium	Ensure that the retail brands in the mall adhere to the theme of the mall to ensure that it maintains its exclusivity
The food courts should host premium eateries	Conduct a market survey of retail brand before signing the tenancy agreement
Find a partner to launch in India who has an understanding of luxury products and is as passionate about the products as the customers.	Do not reduce the price to sell their products. This way they start attracting mass crowds and the mall may lose exclusivity

Top luxury malls worldwide:

Name of the mall	Location
Mall of Emirates	Dubai
The Walk	Edinburgh Scotland
Okhotny Ryad Shopping Center	Moscow
The Landmark	Hong Kong
Takashimaya	Singapore
Blue Water	Kent, UK
Galleries Lafayette	France
Burjuman II	Dubai

Source: Beyond Squarefeet Retail Research Bureau.

space provided. Above all, choosing the right brand for every store is a challenge that every luxury mall owner faces today. There are about 50–70 luxury brands in India today. Obviously there is a lot of choice for a mall owner. It requires a good amount of research to choose the right retail brand to partner with to make the luxury mall a success.

Some of the malls that were launched just before the recession set in are seeing high levels of rental income. But the ones launched during the recession have been badly hit. The rents are very low, but as time passes, it may not be long before the mall owners start demanding high rentals again due to the shortage of luxury retail space.

Today, luxury retail is a mix of all kinds of rental arrangements—flat rentals, minimum guarantee and revenue share combination, full revenue share and step-



up rentals. As the luxury retail space is an evolving one, there is a lot of experimentation taking place, both by mall developers and retail companies. In the near future, we may actually see many more new formats of rental agreements being signed between the stakeholders.

Luxury retailing, along with establishing itself steadily in a country like India, does have challenges to face to maintain its growth:

Maintaining growth

It is widely perceived that the luxury market in India is a small one. The pricing of these products must be high to ensure that it does not end up being a mass product; if it does, it may lose its exclusivity. So, luxury retail poses a challenge for retail companies to maintain exclusivity and still achieve growth among a niche audience. The only way this is possible is by hoping that a greater population from the 'Great Indian Middle Class' moves into the affluent class. This is not impossible or far-

fetched. We have already witnessed this kind of growth in the Indian middle class. According to the National Council for Applied Economic Research in its Household Income Survey, in 2001-02, there were 20,000 families in India with annual incomes of more than Rs 1 crore. By 2005, the number increased to 53,000 and the number is expected to touch 1, 40,000 families earning over Rs 1 crore by end of 2010.

Grey market

The grey market is a killer for these luxury products. While the authenticity of these products can be questioned in the grey market, Indians being Indians, always love to save some money. Since the luxury products are available at much lower prices in the grey markets, the customers prefer to buy these goods in the grey market. The size of grey market for perfume is three times the size of the official perfume market. It is a global problem. Part of the problem lies with the heavy duties on imported products.

Duty-free shops

Duty-free shops pose another big challenge for luxury retail. Luxury products are much cheaper here, and, with affluent Indians travelling abroad frequently, they have access to duty-free shops in international airports. This could bring down the demand for luxury products in the domestic market. The advantage of duty-free shops is that while these products may be priced tad higher than the grey market, the customer is satisfied that he is buying a genuine brand.

High import duties

Retail companies importing luxury goods will have to pay taxes in various forms to make these available in their stores in India. The duties include custom duty, octroi, service tax and others. This raises the end price, and when the same product is available at much lower rate in a neighbouring country or a duty-free shop, the scope for such products to be sold in the grey market increases.

Future Prospects

While cities like New Delhi, Mumbai and Bangalore have had a taste of luxury malls, the cities that are expected to catch up are Chennai, Hyderabad and Kolkata. These cities do offer some potential for luxury malls. But again, luxury malls in a city will have to be restricted to one or two to maintain their exclusivity. The reason why these cities offer the potential for luxury malls is because of the growing affluent middle class, which mostly works in the IT and service sectors and have travelled to foreign destinations. 🇮🇳

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