

Indian Jewellery Retail Outlook for 2009

Hold Tight! Bumpy Ride Ahead



Jewellery is going to have a long take-off run in 2009. Industry pundits predict that due to the global economic slowdown and the volatility in gold prices, Indian consumers will hold back their spending on jewellery at least until the latter part of this year. **Shanoo Bijlani** and **Regan Luis** report on the outlook for this year from the retailer's perspective.



Anil Talwar

Talwarsons, an upscale retailer in Chandigarh.

D.D. Karel, proprietor of N.M. Karel, New Delhi, says, “On the domestic front, the scenario is not so gloomy, but earnings could be affected due to overseas sales being hit.” Vikram Khanna of Khanna Jewellers, also of New Delhi, agrees. “I expect a fall of about 10 per cent over 2009. We will certainly not achieve the 30 per cent growth we have been experiencing over the last five years. The global meltdown is not a monthly or a quarterly phenomenon and is likely to take its course over a period of time. But I believe things will start improving towards the end of this year.”

Generally, 2009 will not be a very promising year for the gems and jewellery sector, warns Nilesh Parekh, managing director of Shree Ganesh Jewellery, Kolkata. “Jewellery sales will be slower in the domestic market, with a drop of 25 per cent in metropolitan cities, while the branded jewellery market would be down by 50 per cent by the second quarter of 2009.”

Vinod Hayagriv, managing director of C. Krishniah Chetty & Sons,

A lot depends on the price of gold as far as jewellery is concerned this year. There is a general consensus that consumer sentiment, dampened by the global recessionary situation, will lift towards the latter part of this year. But jewellery buying will, even then, be dependent on other factors, primarily the price of gold. Irrespective of whether it is high or low, if it stays steady for a period of time, retailers say, sales will increase. Price fluctuations – and other factors like the unpredictability of diamond supply – could kill the market, they say. As it is, most jewellery retailers think this year will register a downturn in sales.

The overall sentiment prevailing in the industry is that the Indian consumer is flush with money and there is enough discretionary income to spend on luxury goods. However, because of the global meltdown, which has affected Indian exports, consumers are holding on to their income till such time that the situation improves. “I feel the news of a slowdown is hitting the consumer more than the real slowdown itself,” asserts Anil Talwar, who owns



Sawansukha Jewellers



World Gold Council

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Bangalore, says, “India is a strong agricultural economy, so urban areas will experience a larger shrinkage in terms of jewellery sales than rural areas. I foresee a 20 per cent drop in jewellery sales over 2009 if the overall economy continues to be bleak.”

Hayagriv predicts that price tags of jewellery will soften and fewer high value transactions will take place this year. Siddharth Sawansukha of Kolkata-based Sawansukha Jewellers echoes this sentiment, forecasting that price tags will slide by an average of 10- to 15 per cent.

Parekh, however, notes that plain gold jewellery, which is purchased mainly for weddings both in India and by non-resident Indians (NRIs) living abroad, will not be greatly affected, but gem- or diamond-set jewellery, which is mainly used for gifting, will take a hit. “On the whole, next year sales will not differ much from 2008.”

Mansukh Kothari, proprietor of Vasupati Jewellers, Mumbai concurs:

“This year will see a lot of investment-driven purchases of gold. The bulk of Indian consumers belong to the middle class, and they would mostly purchase plain gold.”

Indian jewellers have seen an increase in diamond sales by at least 15 per cent year-on-year. Parekh expects diamond- and coloured stone jewellery prices to slip by about 10- to 15 per cent this year. He reasons that this will occur as supply is likely to exceed demand and jewellers will offer different schemes to offload their inventory.

While acknowledging De Beers’ role in promoting diamonds in India, manufacturers and retailers now agree that the industry must collectively promote generic diamond advertisement campaigns. Hailing De Beers’ contribution, Talwar says, “That De Beers has withdrawn its generic ad campaigns will not make much of a difference now because the link between diamonds and emotions has been well established.”



Shri Ganesh



Siddharth Sawansukha (left) looks on during the opening of his showroom in Guwahati



Sawansukha agrees, “Generic ads are the need of the hour, but till such time as we figure out another way of selling diamonds, we should continue to push the emotional link associated with diamonds.” He feels that sales till March this year will be slack, but will pick up soon after.

Most retailers *Solitaire* spoke to observed that high-end consumers were still continuing to buy jewellery although not at rates seen previously. Talwar says, “Last year was exceptional for us in terms of sales, which rose by 50 per cent compared with a year

earlier. We certainly expect to sell more in 2009 than we sold in 2008.”

Sawansukha, however, says, “If we maintain the same sales as 2008 I would consider it to be an achievement.”

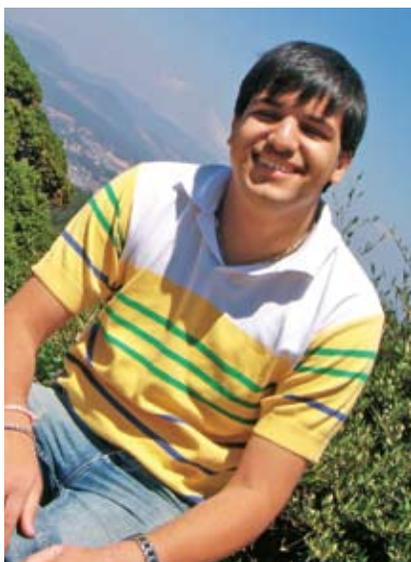
Enticing the Indian Consumer

Jewellers are thinking of different ways and means of enticing Indian consumers by offering a new mix of inventory from a combination of metals like gold, silver and palladium to light-weight jewellery and newer designs in everyday and formal wear. Nilesh Parekh says that greater transparency, good buy-back schemes and innovative marketing strategies will also help boost the jewellery market.

Karel suggests that Indian manufacturers may have to re-engineer some products and include coloured gemstones in their designs. “There is a good market for coloured stones,” he adds.

Rakesh Jain of Sri Ganesh Diamonds & Jewellery, Bangalore, states that astrology will play a major role in driving sales of coloured gemstones.

Jewellery makers and retailers note that Indian retailers are fortunate in that they have always sold jewellery as a “storehouse of value” and this will now stand them in good stead as consumers turn to gold jewellery as a safe haven in troubled times. Gold has never lost its value and offers instant liquidity. One could buy a car with a kilo of gold during the Great Depression of the 1930s and can do so even during today’s global recession.



Rakesh Jain

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But while one might do well with the ‘storehouse of value’ concept, Talwar observes that inventory could make or break a jeweller. He believes that it is very important to have the right mix of inventory and that it should be solely based on customer demand. Hayagriv, meanwhile, thinks that this is a good time to clean up inventory.

Others are looking at cutting costs in these trying times – many jewellery retailers plan cut down their media budgets. Haresh Soni, one of the directors of the All India Gem and Jewellery Trade Federation (GJF), and director of Premji Valji & Sons, Rajkot, states that he’d rather concentrate on his products. “A well-designed and quality product is an advertisement in itself,” he remarks.

Many think that this is the time for new ideas and innovation. Parekh feels it would work if jewellers create lightweight, 22 karat affordable jewellery as gold has no substitute.

Apart from making lightweight jewellery, retailers want to introduce designs which can be worn everyday by office-going women. Sawansukha elaborates, “This generation wants a designer collection which is lightweight and value for money. We should look to Italian jewellery designs which use a minimal amount of gold and yet incorporate the fashion element. The range, priced around Rs.60,000 (\$1,274), would do well in this market.”

In addition, some top jewellers in northern India have seen a sharp increase in demand for everyday products like mobile phones and pens that are studded with diamonds. Items like *navratna puja thalis* (gem-studded trays used for prayers) are also doing very well, says Khanna. But many others that *Solitaire* spoke

to were against retailing such items, saying they would rather stick to selling jewellery, as in this negative atmosphere consumers were unlikely to spend huge amounts on items that they would replace regularly.

Speed bumps

Jewellery retailers feel that products and services like high-end electronics and luxury holidays will eat into jewellery sales to a lesser degree this year as consumers have cut down on discretionary spending across the board.

L. Natarajan, vice president of GoldPlus, a jewellery division of Titan Industries Ltd. says, “The real threat could be the volatility in gold prices and the consumer sentiments related to it.” He goes on to explain that weddings will always drive about 60 per cent of all jewellery sales in India, irrespective of the market conditions. “For the balance 40 per cent of the market, we need to continuously keep the customer interested by offering innovative designs and a quality product.”

Talwar, taking the diametrically opposite view to Soni, states that catering to the remaining 40 per cent



Nilesh Parekh



C. Krishniah Chetty & Sons

requires aggressive marketing. “While people around us are cutting their advertising budgets, we are increasing our media expenditure as I feel this is the best time to increase our customer base,” he notes.

To go a step further, the industry is also looking for a collective initiative to promote jewellery to the consumer. One such jewellery promotion scheme that took place on a national scale was the Lucky Lakshmi jewellery festival that ran between September and November 2008. Similar initiatives could help reap long-term benefits, industry experts believe.

According to Sawansukha, high-end buyers, which constitute about 10- to 15 per cent of the Kolkata market, are momentarily shying away from ostentatious goods. “And that has a knock-on effect on other segments of buyers as well,” he observes.

Parekh expects there won't be much of a dent in gold sales because no other precious metal provides the kind of financial security that it offers. Moreover, in a global recession, where even banks cannot be trusted, consumers are turning towards gold and jewellery as a mode of investment, he notes.

In the wake of the recent terror attacks in Mumbai on November 26, jewellers experienced a dip in sales, especially from tourists and non-resident Indians who visit the country during the Christmas holidays. “This time business is down as the NRI traffic is thin,” says Mansukh Kothari.

Prithviraj Kothari of Mumbai-based Riddhi Siddhi Bullion says that

gold demand prior to the attacks was steady at about 25- to 30 tonnes, adding that sales ground to halt because of the depreciating rupee and the terror strikes. Many jewellers commented that the threat of terrorism affects the market only temporarily.

Growing rural market

India's rural and semi-urban jewellery market is valued at Rs.42,000 crore (\$9.6 billion). GoldPlus' Natarajan estimates that the market could grow to Rs.50,000 crore (\$11.4 billion) in five years' time at today's gold prices.

Many retailers are looking at expanding their presence in semi-urban and rural areas. For instance, Mumbai-based Chintamani Kaigaonkar, managing director of Chintamanis, says plain gold is strong in rural areas and in the coming months, his firm may hold exhibitions in Pune and Aurangabad to 'test the waters'.

Diamonds too are moving in the rural sector and smaller cities. “I am



Chintamani Kaigaonkar

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D D Karel

seeing gradual conversions from gold to diamond jewellery in Rajkot," says Soni, adding many retailers in the region were stocking up on diamonds.

"People in rural areas are not exposed to different forms of investment. The consumer there is not adventurous enough to invest in mutual funds, equities and real estate. Most of the discretionary income in these areas goes into buying gold. So, there is a possibility of expansion here," he adds.

The buying power of rural India has gone up, and with that the sales of jewellery have risen especially branded jewellery, says Parekh.

Road ahead

The industry is closely watching the global and Indian economic situation with its lay-offs and business uncertainties, as it enters the new year. Some are aggressively optimistic. "An experienced jeweller has seen many ups and downs in the trade and this downturn is only likely to make him tougher and more experienced," says an upbeat Talwar. "These hiccups will

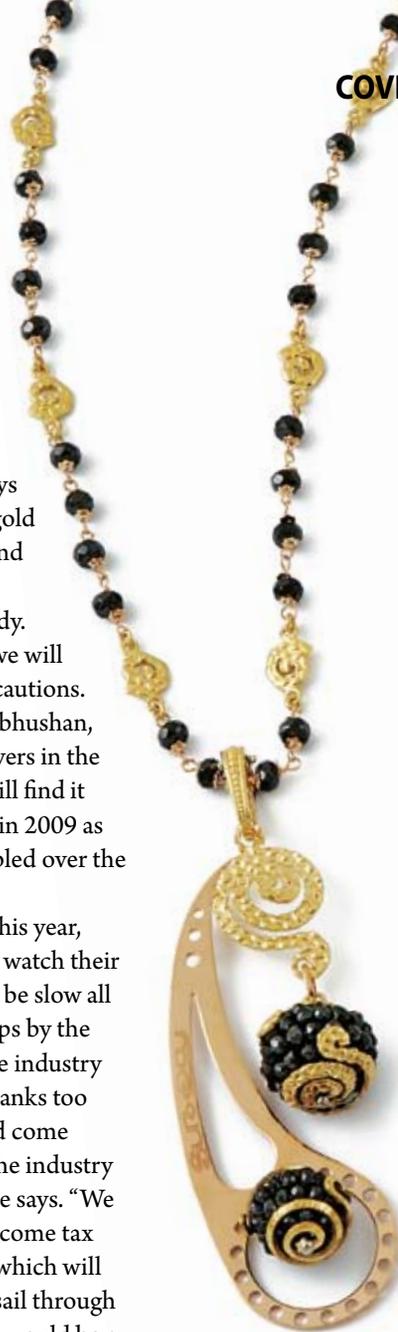
always come and go and will separate the boys from the men," he adds.

On a more pragmatic note, Prithviraj Kothari says that sales will depend on gold prices. "If they hover around Rs.12,000 per 10 grams, jewellery sales will be steady. Anything above that and we will witness a dip in sales," he cautions.

Mahaveer Bohra of Aabhushan, Bangalore, says: "New players in the jewellery retail segment will find it hard to launch new stores in 2009 as the risks have almost doubled over the past year."

According to Parekh, this year, entrepreneurs will have to watch their finances as markets would be slow all around the world. New sops by the government could help the industry survive the rough patch. Banks too will soften their stance and come forward to issue loans to the industry at reduced interest rates, he says. "We will hopefully see many income tax packages during this year which will help Indian businessmen sail through the turmoil. Overall, 2009 would be a year for innovation," Parekh observes.

Some analysts are calling attention



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to the plight of the ordinary goldsmiths who have also

been affected by the economic hardship. "India is known for its handmade jewellery, but there is little being done for *karigars* (jewellery artisans) who are now abandoning their profession as there isn't enough work to sustain their livelihood," explains Kothari of Vasupati Jewellers, who manufactures high-end gold jewellery.

He continues, "Not so long ago, an average jewellery manufacturer provided 5 kg of gold for jewellery making per month to a head *karigar*, who employed 20-odd workers and paid for their accommodation and other overheads like electricity and food.

"That was okay when there was a steady stream of work in the pipeline. Now the work has dried up and the average manufacturer provides about 300 gm of gold per month. The overhead costs remain the same, and the *karigars* are not paid enough as volumes are sizeably cut. In addition, manufacturers are pressing their *karigars* to reduce their labour costs. Most *karigars* are discouraging their children from joining this profession. Clearly, something needs to be done collectively to help this segment of the



Haresh Soni

industry. If not, it will pose a threat to Indian handmade jewellery sooner than imagined," Kothari states.

Hayagriv observes that the long-term goal for the Indian jewellery industry is to professionalise business practices, make quality an imperative and curb unethical practices.

Everyone agrees that the road ahead is going to be more or less tough. "But what will see most of us through is patience," says Hayagriv.



Mansukh Kothari