

Unlocking the Potential of India's Gems & Jewellery Sector

Knowledge Report - Executive Summary



Executive Summary

Introduction

Traditionally the focus of the gems and jewellery manufacturers has been on the large global markets. Indeed for years, barring the last year or so, these international markets have given large and growing business to the Indian exporters and have contributed in creation of significant jobs in the country. The Indian players, duly supported by the Government of India are placed highly competitively in the market. Hopefully with the revival of the international markets, the Indian players would again stand to gain.

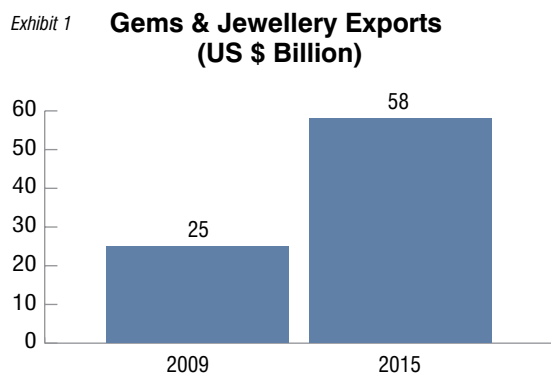
In the last few years, on the other hand, the Indian domestic market has shown very promising signs, evident from the stupendous growth and increase in penetration of the brands and organized retail across the categories namely FMCG, Durables, Apparels, and Home Improvement etc.

We believe that the Indian market holds similar or even brighter potential for gems & jewellery sector. The industry can be put on accelerated growth path provided the industry, the government and other stakeholders plan and act on the initiatives required by the transforming market. In the process the industry shall continue to generate large amounts of foreign exchange and employment to the Indian socio-economic fabric.

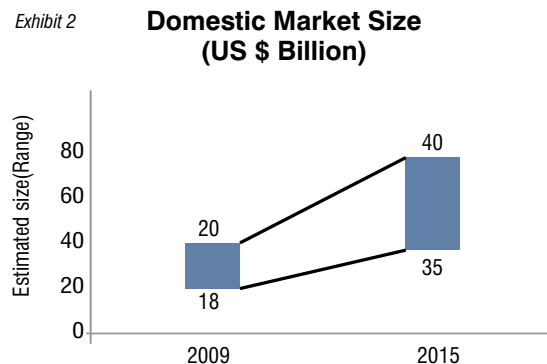
This report is based on the extensive research, interaction with the various stakeholders and Technopak body of knowledge, attempts to assess the enormous untapped opportunities and presents some known (still the need of the hour) initiatives and some new initiatives which can perhaps be the starting point in the future journey.

Market Structure and Potential

Gems & Jewellery exports are the back-bone of the sector and also of our overall exports. The current slowdown had hit the sector badly and in 2008 some months showed negative growth. However the sector



Source – GJEPC, Technopak Analysis



Source : Technopak Analysis



is expected to grow at a CAGR of 15% to reach a size of US \$ 58 billion by 2015 from the current US \$ 25 billion. The government has taken significant steps for the Gems & Jewellery exports in terms of duties and taxes, infrastructure (SEZ, EPZ's etc) and policy (EXIM Policy for 2002-07) but this is not the time to get complacent for the government or the industry as the recent global economic crisis has shown. We need to keep working at making the sector more resilient and competitive especially in the wake of rising competition from countries such as China.

The domestic market of gems and jewellery is estimated to be in the US \$ 18-20 billion range and is expected to grow by about 13% per annum to reach US \$ 35-40 billion by 2015. Given the fragmented nature of the business it is very difficult to estimate the exact range. With per capita consumption almost 1/10th that of any matured market India presents a very large potential market. If some of the recommendations suggested by us in this report are acted upon appropriately, the industry size could potentially reach US \$27- 35 billion. More importantly there is a significant opportunity to create additional value through higher margins possible through differentiation and branding.

Currently however the market is fragmented across the value chain. There are more than 300,000 Gems & Jewellery players across the country, with majority being small players. Modern retail players have only 4%-6% share, which is perhaps one of the lowest when compared to Apparel (20%), Footwear (35%), Books and Music (11%) and CDIT (7%). The industry has also lagged behind relatively to attract the capital; professionals and process/technology know-how to scale up the operations and take the industry into a different orbit.

Traditional jewellery retail is essentially characterized by commoditized selling with "price" being the selling point in most cases. As 94-96% % of the retail is unorganised it is a great challenge to address the collective problems of a fragmented industry with a very traditional and sometimes change –resistant mindset.

The good part is that India is now beginning to move towards branded jewellery and the consumers have accepted the modern retail formats. FICCI Technopak expects that this would act as a catalyst for change and may impact the traditional players, who would need to upgrade themselves in line with the changing market. However we strongly believe that the traditional players would coexist with the modern players - this is in fact the trend in international markets where the independents still hold significant share of the market

Significance and Socio-Economic Contribution

Employment: The sector currently provides employment to around 1.8 million people which in itself is significant. In comparison the IT/BPO sector (which is also people intensive) employs a similar number but majority of the workforce does not come from the economically weaker sections of the society which is the case with Gems & Jewellery. In the next 5 years the sector should create additional employment for around 1.1 million people.

Exports: Gems & Jewellery is the second largest foreign exchange earner in the country surpassing even the US \$ 22 billion earned by the textile and apparel sector. The exports have already bounced back in recent months and are expected to resume a near vertical march to double its foreign exchange earnings in the next 5 years.



Growth Drivers, Opportunities & Challenges of the Gems & Jewellery sector in India

Growth Drivers and Opportunities

• Growing Spending Power

Despite recent slowdown, the move from a “Pyramid” to a “Diamond” shaped structure of the Indian consumer segments is well and truly underway. With a real GDP of ~US\$ 1.0 trillion, Globals, Strivers & Seekers are projected to grow at 11%, 9% and 18% respectively, over the next 10 years. With this, India’s affluent & rich will number more than the adult populations of many large countries. The new Indian consumers demand greater transparency, better service and a more compelling value proposition driven by brand and fashion. At the same time they are also willing to pay justified premium for the right proposition and design. The key here would be to position jewellery as a lifestyle product.

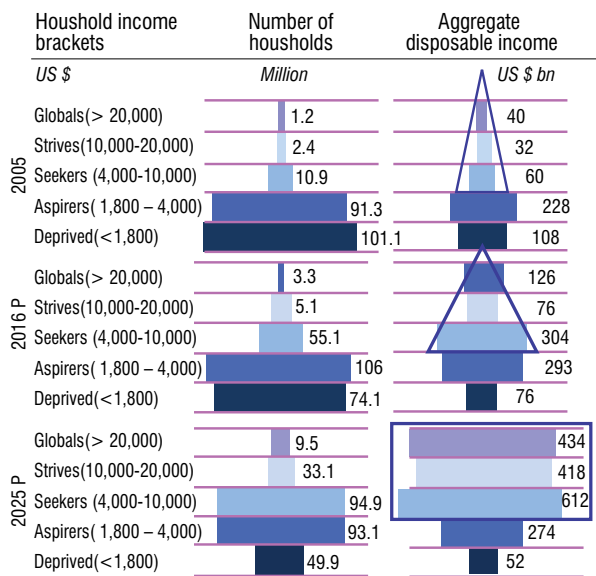
• Organized Players Acting as Catalyst

We anticipate that large investments of about US \$ 1 billion in the coming years would be made by large retailers/brands which would catalyze the growth of the industry, set higher standards and create value across the value chain. As is evident from the Exhibit 2 below, that retailing of gems and jewellery could be financially very lucrative

The leading brands pulling the organized market have now reached a critical mass and are looking for more opportunities to grow. Their network being already large in top tier cities and state capitals, their strategy is to concentrate on their existing base and extend to other categories, as much as opening new stores in tier 2 and tier 3. Tanishq, for example is planning to triple its turnover in the next five years timeframe. Reliance Jewels has announced plans to add 85 more stores to its existing 15 in the next 3 years.

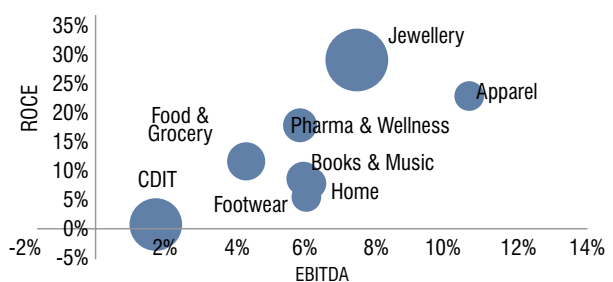
Another heartening fact is that in the past leading brands have been able to grow the market through wider range, new designs and through innovative marketing concepts. Newer ways of segmentation and usage has attracted new set of consumers and created new occasions. It is thus very important to gain the momentum in this direction

Exhibit 3 The Indian Consumer Spectrum



Source – Industry Reports

Exhibit 4 ROCE vs EBITDA



Source : Technopak Analysis



• Real Estate and Other Costs Under Manageable Limits

The last year slowdown has pushed the real estate prices southwards with substantial drop in the rental values with far better terms. This is a good sign for the jewellery retailers looking for expansion opportunities. Similarly the other costs such as manpower have shown stability, which would favorably impact the industry.

Challenges

Competing for Share of Wallet –Expenditure and Investments

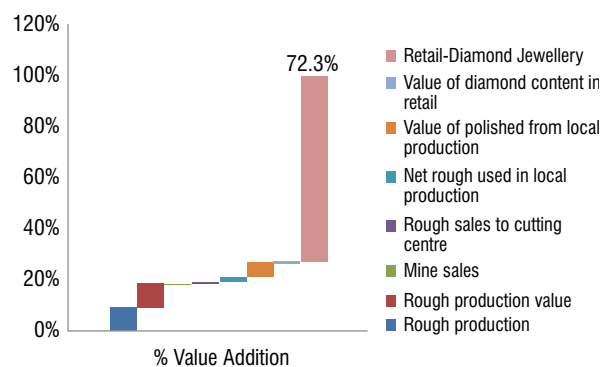
The inaction in the past by the industry past has lead to gems and jewellery taking lower share of growing wallet of the Indian consumers. The increased activities and vibrant industry in other categories like Telecom, Apparel, CDIT, Entertainment, Watches, Vacations and other lifestyle products have possibly taken away some money from the gems & jewellery brands /retailers. This is especially true for younger consumers. Studying the sectoral rankings below, we see that while telecom has overtaken Gems & Jewellery due to the explosion in mobile in recent years in the coming years threat could come from Travel & Leisure and CDIT which are all growing at a faster pace especially with young consumers.

The approach so far has been “one size fit all” (barring few) -traditional designs being served to all sections of the society. The new segment which are emerging like the BPO /Service oriented young middle class require a) “Affordable” , b) “Fashionable” c) which can be purchased “Frequently” d) “Available” off the shelf with e) Certification for providing the much desired assurance . These kinds of products are by and large missing from the market. As a result the industry is losing traction relative to other emerging categories like watches, mobile phones and other lifestyle products. Similarly there is a business case for catering to the consumers in the upper tier of bottom of the pyramid. The reason is that unlike others segments they do not have many avenues other than jewellery to invest their money. Innovative measure such as availability at gold exchanges,

Exhibit 5

Ranking 2009	Retail Categories
1	Food & Grocery
2	Healthcare
3	Apparel & Home Textiles
4	Education (K-12, Higher Ed. & Vocational)
5	Telecom
6	Jewellery
7	Personal Transport (Vehicles +Fuel+ Repairs)
8	Travel and Leisure
9	CDIT
10	Home - Furniture, Furnishing etc
11	Personal Care
12	Eating out
13	Footwear
14	Health & Beauty Services

Exhibit 6 International Diamond Jewellery Value Chain



Source – International Diamond Exchange, 2007



making affordable branded /certified products, and gold asset monetization possibilities could really help in unlock the potential for this large segment.

The imperative for brands and retailers is to understand the various consumer segments and make customized propositions and suitable designs which have been missing resulting in its lower preference in comparison with other emerging categories. In this regards, the industry can draw our significant learnings from the other similar industries like watches, which has very successfully positioned a functional category as lifestyle accessory and a fashion statement thereby creating significantly value. In the process some of these players have clearly moved away from cost+ approach and have increased consumer willingness to pay more. The international diamond jewellery value chain shown below proves how retailing adds the maximum value in jewellery and this should inspire us to move from the material + making charge pricing we see in Indian jewellery retail, towards brand and design led pricing.

Further in the last two decades several alternative investment options such a stocks and real estate have emerged. Gold as an investment option is facing competition here as well. As per “The World Wealth Report” the investment in gold is less than 10% of the total investments for HNIs.

Mindset and Manpower

In order to tap the growing opportunity, the sector needs to attract and groom professionals at all levels – Managerial and Skilled workers. The sector so far has not caught the attention of the managerial resources be at senior level or at entry level unlike other consumer product segments like FMCG, Durables or Retail for that matter. The issue perhaps also stems from the fact that the majority of players operating in the sector have still not adopted the best practices from the corporate culture.

The industry can perhaps take a leaf out of the book of institutes like NIFT which have done exceedingly well for their industries.

Government and Apex bodies could act as facilitators in broadening the outlook of the exporters /players and help them in familiarizing with the changing scenario both in the domestic and international fronts, where moving up the value chain and adoption of modern practices has become compelling imperatives.

Upgradation /Modernization

As mentioned earlier, the industry needs to modernize itself. As stated earlier it is highly fragmented with minimal benefits of economies of scale, latest production techniques or design centers. All of them are critical for the industry to move towards the high end of the value chain.

The Indian industry can perhaps learn significantly from Turkey where the industrialization of the jewelry segment has transformed it into the one representing the modern flexible production techniques, supreme craftsmanship, excellent quality and immense variety. In the mid 90's, firms started to employ designers and now most of the world design teams work in Turkey. There are several design departments in the universities and vocational design institutes. Currently the major firms can 10 designs with 70-80 variations per day. Now there are more than 25 firms

Financing

A good funding instrument has one or more of the following characteristics: -

- » Easy to access
- » Friendly terms (interest, collateral, repayment etc)
- » Tailored to specific needs of the borrower

As shown in the exhibit below there is a dearth of innovative financing options at the retail end though good options are available to the remaining value chain. Imparting industry status to the sector can help a long way in facilitating the flow of much needed finances to retail.

Exhibit 7

Financing Options in Gems & Jewellery

Financing Options	Raw Material Sourcing	Raw Material Processing	Raw Material Trading	Jewellery Manufacturing	Wholesaling	Retailing
Packing Credit (for diamond exports only) • Available for 180 days pre-shipment and 180 days post-shipment	✓	✓	✓			
Gold Loan • Available against bank guarantee • Upto 90 days pre-shipment and 180 days post-shipment • LC on gold is also available for 90 days through nominated agencies	✓	✓	✓	✓		
Cash Credit for Domestic Consumption	✓	✓	✓	✓	✓	✓
Working Capital demand Loan	✓	✓	✓	✓	✓	✓
LC – 180 to 364 days	✓	✓	✓	✓	✓	✓

Source – FICCI

Recommendations to Stakeholders

To the Industry

1. Potential Assessment and Strengthening Consumer Understanding

The domestic market holds a significant opportunity and its potential needs to be fully explored. The consumers have evolved rapidly and the traditional ways of segmentation & usage have failed to provide any meaningful results to the brands and retailers. There is dire need for the industry to first understand the various segments of the consumers and their purchasing and shopping needs. The proposition, design and brands can be created around these needs.

2. Invest in Retailing and Brands

The organised retail and brands can provide impetus to the sector. Appropriate investments can potentially put the category on a higher priority in the consumer basket and can generate the higher margins. An overall investment of US \$ 2 billion is required by for branded jewellery to achieve 15% share of the market. A possible solution here is to create highly active Industry Co-ordination Cells by the industry promotion bodies. This could bring together the outside investors and industry stars to create high-potential, low-risk joint-ventures and partnerships.

3. Improve Skill Sets & Quality of People

The Gems & Jewellery industry needs to systematically and collectively invest in upgradation of the skill sets of its workforce through increased training and manpower development programs. A joint effort by the Industry to invest in the development of vocational training institutes could be a way forward with Industry captains showing the way forward by leading efforts to underwrite recruitment of graduates and participate in syllabus design & development. There is also a need to present the case and opportunities that the industry offers to the corporate talent /management students

4. Enhance Product Design & Manufacturing Quality Standards

A National Institute of Jewellery Design & Development would go a long way in providing the platform for development of a pipeline of innovative high quality designers that can serve the industry as a whole. The Institute can play a role similar to NIFT – which ultimately proved to be a fertile ground that gave birth to a number of marquee design brands in the country in Apparel and improved product design and manufacturing quality. Indian Institute of Gems & Jewelry (IIGJ) is a step in the right direction but the scale and reach needs to be even greater to meet the huge demand. If Industry captains come together to invest in setting up the institute or expanding existing ones, efforts can be made to lobby to obtain Government support and create national “centres of excellence” like NIFT with multiple campuses and courses.



5. Promote Adoption of Industry Wide Standards for Gaining Consumer Trust

Enhancement of product quality standards and incentives for increasing adoption of the standards will go a long way in enhancement of consumer trust and enable the industry to gain share of wallet of the consumer in the long run. Eventually it will also help in the spread of e-selling in India which in recent years has been the most exciting development in western markets.

6. Co-operative Use of Resources

To bring down cost of operation and investments in the sector, industry players should adopt co-operative use of technology and marketing. Even retail space can be hired by co-operatives when foraying into international markets.

To the Government

Government and Apex bodies could act as facilitators in broadening the outlook of the exporters /players and help them in familiarizing with the changing scenario both in the domestic and international fronts, where moving up the value chain and adoption of modern practices has become compelling imperatives.

1. Provide Industry Status to Gems & Jewellery Sector

Special cell to look into specific needs of Industry- At ~US \$15 bn, the domestic Gems & Jewellery industry deserves the same attention and interest as a number of other industries such as Textiles & Steel. As a first step, the domestic Gems & Jewellery Retail sector could benefit tremendously from Industry status.

2. Creating Technology Upgradation Fund

for facilitating the modernization of the manufacturing and design facilities. These funds have been successfully created and implemented in other labor intensive industries like Textiles.

3. Creation of Design Centers /Studios, Holding Fairs

The importance of design has been highlighted by us in this report. This can help significantly in moving the industry from commoditized selling to design based selling. Perhaps this can be taken up by Ministry of Education

4. Asset (Gold) Based Leverage

Banks as a practice do not mortgage jewellery from individuals as collateral for lending although some companies in the private sector do so. If banks also start lending by using jewellery as a collateral after keeping a safe margin on the price of the material, then precious metal jewellery and precious stone jewellery will become more attractive for their investment value.

Perhaps RBI can think and act on this suggestion which can potentially unlock significant value

5. Regulatory Laws & Taxation

There are some regulations which are restricting the growth of the industry such as search & seizure laws. Perhaps there is case of rationalizing /removing these restrictive laws. At the same time there is dire need to standardization in the industry, which can restore the credibility of the industry. In terms of taxation there should be a continuation and further enhancements of tax benefits. Notably Deduction under section 10A / 10B / 10AA of Income tax Act should be modified to have a longer period of benefit both for future as well as retrospective effects. Removal of Octroi from Mumbai will also go a long way in supporting the large presence of the sector in that city.

6. Modernize Labor Laws

This will enable Indian manufacturers to improve efficiencies, serve Indian consumers better and also grow exports from India by allowing manufacturers to adopt more flexible labor practices.

7. Increase the Setting up of Export Focused SEZs

This would help to meet and the growing needs of exporters and create the infrastructure for even faster export growth. The policy could also help to promote the spread of industry across India from besides the current pockets in western & southern India.

8. Gold Exchange

A physical or internet based exchange to trade precious metals could involve the promote the Indian population to rediscover their age old investment preference for the precious metals which have time and again proved to be safe instrument with good returns.

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally.

FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 39 sectors, 8 Forums and 13 Task Forces/Working Groups of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with 79 countries around the world.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking.

Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.

FICCI-Western Regional Council is the western regional arm of the Federation of Indian Chambers of Commerce & Industry. In addition to supporting FICCI, New Delhi, FICCI-WRC organizes its own conferences, seminars, workshops and networks with visiting delegations from several developed and developing countries.

FICCI WRC actively provides sectoral services in Brand Protection, Boating, Business Matching, Design, Gems and Jewellery, Nutraceuticals, Progressive Maharashtra, Textiles, Technical Textiles and Wellness.

FICCI-WRC has been playing a pro-active role in bringing to the fore India's potential in the Gems and Jewellery sector and has been researching the possible future strategy for developing this sector in which India has a distinct edge. We believe that with the right policy and regulatory framework India could establish itself as a brand in the international Gems & Jewellery market, increase employment and create new breed of entrepreneurship.

For more details contact

Dr. Vaijayanti Pandit /Mr. Ankesh Jain
 Director,
 FICCI Western Regional Council
 Krishnamai Cooperative Housing Society Ltd
 Ground Floor, Plot No. 33-B
 Sir Pochkhanwala Road, Worli
 Mumbai - 400 030
 Phone: +91 022- 24968000, Fax: +91 022-24966631-32
 Email: drvpandit@ficci.com, ankesh.jain@ficci.com

About Technopak

We are a management consulting firm with a difference. Founded in 1991 on the principle of “concept” to “commissioning”, we are in the top 5 consulting firms in India by revenues. We are strategic advisors to our clients during the ideation phase, implementation guides through start-up phase, and trusted advisors overall. The industries we serve include **Retail, Consumer Products, Fashion (Textiles & Apparel), Healthcare, Hospitality & Tourism, Leisure & Entertainment, Food & Agriculture and Education.**

Our clients are leading Indian and international businesses, entrepreneurs, investment houses, multilateral development bodies and governments. Our 600+ clients include Aditya Birla Group, Apollo Hospitals, Arvind Limited, Asian Development Bank, Asian Paints, Temasek Holdings, Essar, GMR Group, Godrej Group, Gujarat Government, Hospital Corporation of America, ICICI Limited, Hindustan Unilever Limited, International Finance Corporation, Lenovo International, Mahindra Group, Marks & Spencer, Mother Dairy Foods, Ministries of Food Processing, Textiles & Commerce, Raymond, Reliance Industries, Samsung, Sequoia Capital, Starwood (Sheraton), Tata Group, United Nations Development Program, Walt Disney, Warburg Pincus and many other Indian and international leaders.

Services We Offer in Management Consulting

At Technopak, we foster innovation and creativity which challenge conventional thinking and generate practical and far reaching solutions for our clients. In 2008, we worked with over 130 clients across 180+ projects, in 20 countries besides India, across 5 continents.

Our key services are:

Business Strategy. Assistance in developing value creating strategies based on consumer insights, competition mapping, international benchmarking and client capabilities.

Start-Up Assistance. Leveraging operations and industry expertise to ‘commission the concept’ on turnkey basis.

Performance Enhancement. Operations, industry & management of change expertise to enhance the performance and value of client operations and businesses.

Capital Advisory. Supporting business strategy and execution with comprehensive capital advisory in our industries of focus.

Consumer Insights. Holistic consumer & shopper understanding applied to offer implementable business solutions.

Services we offer through our Group Companies

foleydesigns

Insights and innovation led product, packaging, space and strategic design, including design research, concepts, engineering and prototyping. A blend of unique, contemporary and relevant concepts and solutions.

www.foleydesigns.com

MINDSCAPE

Holistic consumer understanding applied to offer implementable business solutions revolving around shopper insights, trend insights, design and innovation insights, marketing communication and measuring customer delight.

www.indiamindscape.com

VERTEBRAND

Strategizing, planning and managing creation, development and growth of brands through a scientific, transparent and process-driven methodology.

www.vertebrand.com

t e c h n o p a k Engineering

Planning, implementation and project management of plants, warehouses and entertainment centers with a focus on modernization, process improvement, technical valuation, power & water audit and environmental engineering.

www.technopak.com/engineering

Services we offer through our Strategic Partnerships



World's largest privately held real estate services firm. We offer, through them, comprehensive retail real estate solutions to our clients.

www.cushwake.com



UK's leading design consultancy for developing brand environments. We offer, through them, design solution for retail environments.

www.dalziel-pow.co.uk



Global research and consulting firm specializing in the study of human behavior in retail, service, home, and on-line environments. We offer consumer and shopper insights.

www.envirosell.com



Partners with Technopak for delivering Projects in India. They are one of the top architectural practices in the UK with extensive experience in architectural and urban design projects in UK and internationally. The practice has major specialism's in Healthcare Architecture

www.devereuxarchitects.com

Technopak Advisors Pvt. Ltd.

Gurgaon

4th Floor, Tower A, Building 8, DLF Cyber City, Phase II,
Gurgaon 122 002, (National Capital Region of Delhi)
(India)

T: +91-124-454 1111, F: +91-124-454 1199

Bangalore

Prestige Solitaire, Ground Floor, 6 Brunton Road,
Off MG Road, Bangalore 560 025
(India)

T: +91-80-4034 8600, F: +91-80-4034 8699

Mumbai

101-105, 2nd Floor, Sunjana Tower,
Sun Magnetica Service Road,
Luis Wadi, Thane West,
Mumbai 400 602
(India)

T: +91-22-2583 2222, F: +91-22-2583 8408

Website: www.technopak.com