



ECONOMIC ANALYSIS OF INDIAN GEMS AND JEWELLERY INDUSTRY WITH OUTSHOPPING EXPERIENCE OF CONSUMERS

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Abstract

Outshopping, also known as market gravitation or market leakage is the practice of going outside the local community to buy goods. Outshopping is a phenomenon that particularly affects retailers in small, rural communities. Reasons given for such behaviour include better designs, and more stores and broader product depth. This paper looks at the shopping habits of two distinctly different groups of buyers in Coimbatore to determine the extent and reasons for outshopping behavior. The study found that designs and convenience were the most important reasons community residents had for buying gems and jewels. However, jewellery owners were more influenced by their desire to purchase from local merchants when they made personal buying decisions. This suggests that relationships, among shoppers and shop owners, built and sustained in a community, influence consumer buying behavior.

Positive Impact on Outshopping

Major reasons for outshopping include lack of shopping options in the outshoppers' community and the minimal product depth and breadth of those retail establishments that do exist. While similar in their outshopping behavior, males and females differ in their motivations, with males identifying pricing and less than friendly employees driving their outshopping behavior and women indicating they derive greater pleasure from shopping away from home (Hopper & Lipscomb, 1991). Miller and Kean (1997) found that when there was a reciprocal relationship between the shopper and the merchant, i.e., the merchant's involvement in the community had a positive impact on the shopper's lifestyle, less outshopping existed. In addition, shoppers express a need for excitement and variability in their shopping experiences (Papadopoulos, 1980), seeing shopping as an adventure as opposed to a functional activity.

Jewellery Industry in India

The gems and jewellery industry occupies an important position in the Indian economy. It is a leading foreign exchange earner, as well as one of the fastest growing industries in the country.

The two major segments of the sector in India are gold jewellery and diamonds. Gold jewellery forms around 80 per cent of the Indian jewellery market, with the balance comprising fabricated studded jewellery that includes diamond and gemstone studded jewellery. Besides, India is world's largest cutting and polishing Industry for diamonds, well supported by government policies and the banking sector with around 50 banks providing nearly \$3 billion of credit to the Indian diamond industry.

A predominant portion of the gold jewellery manufactured in India is consumed in the domestic market. However, a major portion of the rough, uncut diamonds processed in India is exported, either in the form of polished diamonds or finished diamond jewellery. The largest consumer of gold worldwide, India is also the leading diamond cutting nation. Gold and precious gems have played a pivotal role in the Indian social fabric and economy. Precious gems and jewellery are a part and parcel of Indian traditions and customs. Gold has traditionally been valued in India as a savings-and-investment vehicle and even today, continues to be the second most popular instrument after bank deposits.

Gems and jewellery is one of the fastest growing sectors in the Indian economy with an annual growth rate of approximately 15 per cent. The gems and jewellery industry accounts for nearly 20 per cent of the total Indian exports and employs over 1.3 million people, directly or indirectly. The Gems and Jewellery market essentially comprises of sourcing, processing, manufacturing and selling of precious metals and gemstones, such as, Gold, Platinum, Silver, Diamond, Ruby, and Sapphire etc. The G&J market is a significant contributor to the Indian economy, based on the size of the domestic market and through its contribution to the country's exports. India is the largest consumer of gold (around 20 percent of global consumption) and also the largest diamond processor (around 90 percent by pieces and 55 percent by value of the global market).

Small jewellery shoppers in rural communities face a number of problems: small market areas, ageing populations and limited supply sources being but a few. One of the most vexing problems, however, is the inclination of residents to go outside the community to buy goods. Gems and jewellery sector Diamonds, gems and Jewellery have been a part of the Indian civilization since its recorded history, the significance of the gems and Jewellery industry in the Indian economic



scenario is a development of the last three or four decades. In 1966-67, the export turnover of the Gems and Jewellery industry was just Rs.220 m representing a 3 per cent of total merchandise exports. However, it has now grown to become one of the leading export oriented industries in India recording an export turnover of around Rs.875 during 2006-07 and contributing 16 per cent of total exports, making it as significant foreign exchange earner for the country.

Classification of Gems and Jewellery Sector

- Polished Diamonds
- Gem Stones
- Gold and Jewellery
- Synthetic Stones

Background of Gems and Jewellery

The Indian domestic diamond jewellery market was estimated at around Rs. 176 billion during 2010. China ranks sixth in the world in terms of diamond jewellery retail value, ahead of India, which are in seventh place. India ranks third in terms of diamond value, while China holds the seventh position. Indian diamond jewellery industry is the third largest consumer of polished diamonds after USA and Japan.

The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 6-7 per cent of the country's GDP. One of the fastest growing sectors, it is extremely export oriented and labour intensive.

Based on its potential for growth and value addition, the Government of India has declared the Gems and Jewellery sector as a focus area for export promotion. The Government has recently undertaken various measures to promote investments and to upgrade technology and skills to promote 'Brand India' in the international market.

India is deemed to be the hub of the global jewellery market because of its low costs and availability of high-skilled labour. India is the world's largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies. Moreover, India exports 95 per cent of the world's diamonds, as per statistics from the Gems and Jewellery Export promotion Council (GJEPC). The industry has generated US\$ 38.6 billion of revenue from exports in 2015-16, making it the second largest exporter after petrochemicals.

India's Gems and Jewellery sector has been contributing in a big way to the country's foreign exchange earnings (FEEs). The Government of India has viewed the sector as a thrust area for export promotion. The Indian government presently allows 100 per cent Foreign Direct Investment (FDI) in the sector through the automatic route.

Market size

The gems and jewellery market in India is home to more than 500,000 players, with the majority being small players. India is one of the largest exporters of gems and jewellery and the industry is considered to play a vital role in the Indian economy as it contributes a major chunk to the total foreign reserves of the country. UAE, US, Russia, Singapore, Hong Kong, Latin America and China are the biggest importers of Indian jewellery. The overall gross exports of Gems and Jewellery in April 2016 stood at US\$ 3.23 billion, whereas exports of cut and polished diamonds stood at US\$ 1.78 billion. Exports of gold coins and medallions stood at US\$ 302.67 million and silver jewellery export stood at US\$ 299.69 million in April 2016. The overall gross imports of Gems and Jewellery in April 2016 stood at US\$ 2.90 billion. According to a report by Research and Markets, the jewellery market in India is expected to grow at a Compound Annual Growth Rate (CAGR) of 15.95 per cent over the period 2014-2019.

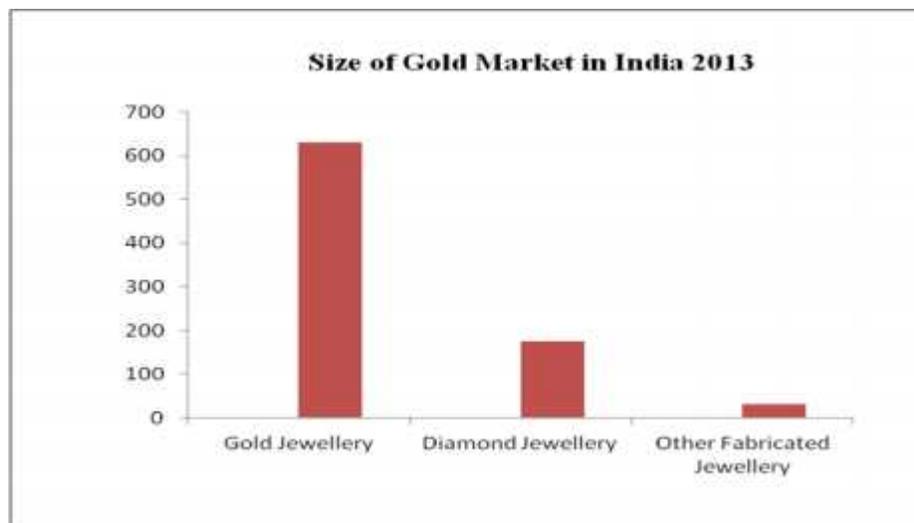
The cumulative Foreign Direct Investment (FDI) inflows in diamond and gold ornaments in the period April 2000-March 2016 were US\$ 772.05 million, according to Department of Industrial Policy and Promotion (DIPP). During April-December 2015, India imported US\$ 17.33 billion worth of raw material for gems and jewellery. With an 8 per cent share in polished diamonds, India has become the world's third largest diamond consumer. Gold jewellery since time immemorial has remained "neighbours envy and owners pride". The ornaments have remained exotic, unequalled and invaluable articles of personal glory. And with jewellery becoming symbol of status, fashion and taste, men and women today are steadily moving away from conventional styles of adornment and ornamentation and are gradually adopting modern patterns better suited to their busy life styles.

The gems and jewellery industry plays an important part in the Indian economy. In addition to boasting a large gems and jewellery market, India has a unique situation in terms of both demand and supply. The domestic gems and jewellery industry had a market size of INR 251,000 Cr in 2013, with a potential to grow to INR 500,000 – 530,000 Cr by 2018. The gems and jewellery industry is crucial to the Indian economy given its role in large - scale employment generation, foreign exchange earnings through exports, and value addition. The industry provides direct employment to roughly 2.5 million people and has the potential to generate employment of 0.7–1.5 million over the next five years. This is comparable to the 2.1 million employments provided by IT services and is 2.5 times that provided by basic iron and steel manufacturing and automotive manufacturing. In 2012–2013. The industry drove jewellery exports to the tune of INR 227,000 Cr, outperforming textiles and apparel exports by 25%. The industry also drove value addition of more than INR 99,000 Cr, which is comparable to several large industries such as apparel manufacturing. The demand in India can be segmented into consumption and investment. Unlike most other countries, investment demand for gold is important in India and accounts for about 45 percent of total market demand. Around 57 percent of the investment demand comes from bars and coins, while the rest comes from Jewellery.

The high investment demand is driven by a lack of alternative financial institutions for a large section of society, a perceived capacity to hedge against inflation, ability to invest smaller value in gold, high returns in gold over the past 12 years and ease of investing unaccounted money in gold. Also, while the volume demands for gold as jewellery has remained more or less constant over 2005 to 2013, the volume demand for gold bars and coins have grown at a CAGR of around 13 percent in the same period. From a supply side, the value chain consists of imports, mining, refining, trading, manufacturing, and retailing. This includes a mix of players catering to both consumption and investment demand. The Indian gems and Jewellery industry is fragmented, with local players constituting about 80 percent of the overall market.

The variances in consumer preferences in designs, quality, and material across different regions have historically presented a challenge for national and organized players to create design-led differentiation. The share of organized players in the industry is growing, specifically that of regional players. However, there is a risk of reversal in this trend due to increasing regulatory restrictions on gold imports and the price differential between the official and unofficial supply of gold in the market. The supply side is also characterized by several local and independent stores in rural areas that play the role of financing entity, providing customers an investment option and lending money against gold. The industry faces several challenges impacting consumption and the investment demand side of the market. While challenges in talent and skill development, research and technology adoption, and limited financing options are core to players catering to the consumption demand for jewellery, an increasing investment demand with limited supply infrastructure affects the investment side of the market. High import dependence and regulatory curbs impact both consumption and investment demand of the market.

Size of Gold Market in India 2013 Rs. in billion



Market Structure

Emerging from relatively humble beginnings of a small and unorganized sector in the 1950s and 1960s, the Indian gems and jewellery industry has rapidly emerged as one of the leading export oriented industries in India and a significant foreign

exchange earner for the country. However, the demand for different types of G&J is influenced by different factors including buyer preferences, properties, varieties, unit values, application etc. The gems and jewellery Sector may be further classified into the following sub-sectors based on the characteristics, processing techniques and preciousness in terms of price range and marketability:

The two major segments in India are gold and diamonds.

Gold

Gold is an integral part of the Indian tradition & history. Gold jewellery is the preferred jewellery worn by women in India irrespective of their religious beliefs. India also dominates the gold and silver consumption globally with consumption of about 10000 tones p.a. (largest consumers in the world). Domestic Consumption of gold jewellery manufactured in India is also very high.

Demand

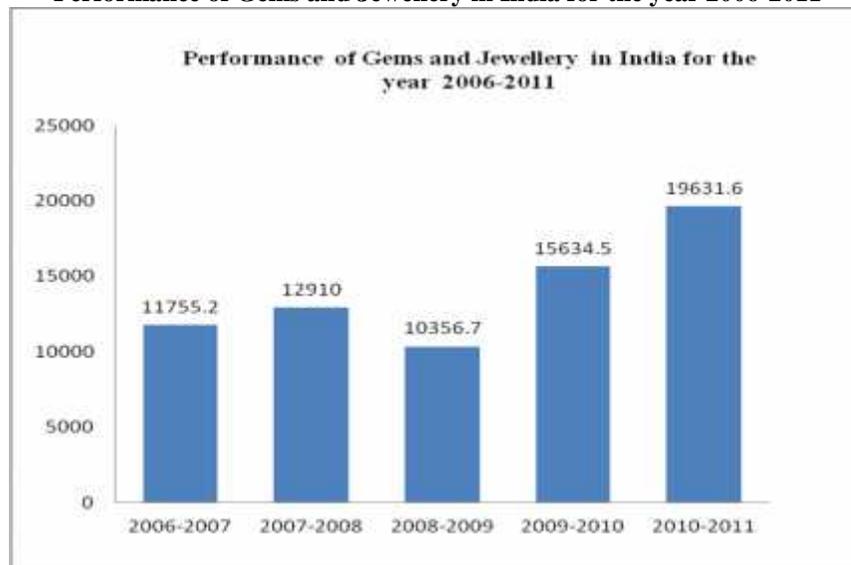
India's gold jewellery demand is seasonal with the highest consumption during the festival and wedding season. Demand for gold in India has an inverse relationship with price volatility. With increased volatility in current months, the consumption has declined. However, gold is also considered a natural hedge against inflation and is considered a safer option in times of economic uncertainty which leads to gold demand in the form of retail investments and Exchange Traded funds (ETF). The demand for gold and gold-jewellery is related to international prices, currency fluctuations, agricultural production, and the number of marriages. The consumer is therefore very sensitive to price. A rise in the price can cause quite a sharp fall in the amount of new gold purchased. India has been the largest consumer of gold for jewellery in recent times.

The domestic demand for gold jewellery is estimated at Rs. 390 billion in 2005, accounting for an estimated 80% of the Indian jewellery market of Rs. 490 billion. Apart from its historical religious significance, gold circulates within the system and roughly 30 per cent of gold jewellery fabrication is from recycled pieces. India is the largest consumer of gold with a consumption of 800 tonnes per year.

Investments/Developments

The Gems and Jewellery sector is witnessing changes in consumer preferences due to adoption of western lifestyle. Consumers are demanding new designs and varieties in jewellery, and branded jewellers are able to fulfil their changing demands better than the local unorganised players. Moreover, increase in per capita income has led to an increase in sales of jewellery, as jewellery is a status symbol in India.

Performance of Gems and Jewellery in India for the year 2006-2011



Government Initiatives

The Reserve Bank of India has announced norms for gold monetisation scheme, which allows individuals, trusts and mutual funds to deposit gold with banks in return for interest, to help reduce gold imports and alleviate pressure on trade balance.



The Reserve Bank of India (RBI) has liberalised gold import norms. With this, star and premier export houses can import the commodity, while banks and nominated agencies can offer gold for domestic use as loans to bullion traders and jewellers. Also, India has signed a Memorandum of Understanding with Russia to source data on diamond trade between the two countries. India is the top global processor of diamonds, while Russia is the largest rough diamond producer.

The Government of India is planning to establish a special zone with tax benefits for diamond import and trading in Mumbai, in an effort to develop the city as a rival to Antwerp and Dubai, which are currently the top trading hubs for diamond. Due to shortage of skilled manpower, the Gems and Jewellery Skill Council of India is planning to train over four million people till 2022. The council aims to train, skill and enhance 4.07 million people by 2022. The council plans to tie-up with the existing training institutes including Gemological Institute of America (GIA) and Indian Gemological Institute (IGI), along with setting up of new institutes in major diamond cutting and processing centers, Gems & Jewellery Export Promotion Council (GJEPC) said in a statement here. The GJEPC has also proposed to develop a jewellery park on Thane-Belapur Road which is around five kilometers from Mumbai with a view to boost the Mumbai-based jewellery industry by providing modern facilities and services.

Indian Institute of Gems and Jewellery (IIGJ) Mumbai, a project of the Gem and Jewellery Export Promotion Council of India (GJEPC), has come-up with three-year Graduate Program in Jewellery Design and Manufacturing Techniques with an introduction to Management studies in collaboration with Welinkar Institute of Management.

In September 2015, the Government of India approved the gold monetisation plan in the form of revamped Gold Deposit Scheme (GDS) and the Gold Metal Loan (GML) Scheme to mobilise tonnes of gold stored in households and temples across the country. The Union Cabinet also approved the introduction of Sovereign Gold Bond Scheme, under which gold bonds denominated in grams of gold will be issued to individuals by the Reserve Bank of India (RBI), in consultation with Ministry of Finance.

Reasons for Outshopping

- Changes in the Selling Process of the gold, its attract the customers
- Introduced new design in the manufacturing to attract customers and create niche market
- Strategies both prior and after the production for better distribution, sales and marketing
- Technology for developing large scale in the market
- Make financing available in each stage of the purchase gems and jewel.