China, a strong hand in the premium market

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As liquor reddens a person's face, gold blackens an official's heart. (白酒紅人面 黃金墨吏心) - Chinese Epigrams and Aphorisms (推句集)

Gold has been a symbol of wealth and treasure throughout the ages all over the world. Few people would refuse gold. This saying applies not only to public officials or people with black hearts. The fewer the number of people privileged to own a treasure, the more precious it becomes. This is the way of the world.

China and India's premium market growing by 20-30%

"Crouching Tiger" and "Hidden Dragon" loom large in the global premium and luxury markets. The terms refer not to the movie starring Yun-Fat Chow (周潤發), but to China and India, which are evolving from the

With more aggressive marketing strategies and systematic support from the government and research institutes, the Korean economy has much to gain from the premium markets in China and India.

"factories of the world" to the "markets of the world". China and India have had a significant impact on the world economy for quite some time. However, their predominant image has been one of countries that manufacture cheap products at low labor costs.

Things are changing rapidly now. Amidst widespread slowdown in the global economy, China and India are leading the global consumer market. This does not mean that their markets are simply big in size. It means that the two Asian countries are emerging as strong hands not only in the low-end market, but also in the premium and luxury markets.

In 2010, the global premium market totaled USD 254 billion, showing an approximately 12% increase year-on-year; however, China's premium market is showing an average annual growth rate of 30%, far exceeding the global average. China is the world's second largest premium market after Japan, and it is expected to become the largest in 2014. India's premium market has been increasing by 20% annually, and its size is expected to match that of advanced countries by 2015. Simply put, China and India will take the lead in the world's premium and luxury markets in the near future.

○ ● Low per capita income, high consumption by the rich

Changes happening in China and India are attributed mainly to the rapid economic growth and rising incomes. However, the more important reason for the new consumption trend in these countries is changes in income distribution and demographics.

China and India both have low per capita incomes, but they have large populations of luxury consumers. In China, the number of people with more than RMB 10 million (USD 1.57 million) is around 960,000, and this number is increasing by 10% each year. The number of people that can afford premium and luxury goods in China stands at around 160 million, or 12% of the total population. In India, the number of households with an annual income of over USD 100,000 totals 1.6 million, and their income is increasing by 14% each year.

The traditional upper-class still constitutes a large proportion of premium consumers in China and India. This is truer in India, where the caste system of the past still remains a factor, than it is in China, whose economy has shifted from the socialist system. However, what is drawing attention to the new consumption trend in China and India is the nouveau rich, who have benefited from the economic growth and prefer name brand and luxury goods to show off their social standing. In the USA and Europe, luxury goods are consumed mainly by middle-aged and older people, while in China young adults account for more than 70% of total luxury consumption. As a result of China's one child policy, many of the young generation who were pampered in childhood have higher consumption tendencies than young people in other countries; they also have a strong preference for luxury goods. The popular term “moonlight clan” (月光族) was coined recently to describe people who live from paycheck to paycheck or spend all of their monthly income. Together with increasing consumption by young people, women's rising purchasing power is stimulating luxury consumption. In about half of Chinese households, income is managed by the woman of the house.

The emergence of new types of transactions, mainly online, is another catalyst for the increase in luxury consumption in China and India. In China, online luxury consumption totaled RMB 3.4 billion in the second quarter of 2011, a 19% increase from the previous quarter. This trend is expected to continue in the second half of 2011, reaching RMB 16 billion by the end of

2011. A Rapid increase in overseas travel has also bolstered luxury consumption, as purchasing name brand luxury products overseas can be up to 30% cheaper than buying them in China.

○ ● A sharp contrast to contracted luxury markets in the USA and Europe

The emergence of China and India is changing the landscape of the global premium market. Japan is still the world's largest premium market, with about 40% market share. However, Japan's luxury market is decreasing by 5% each year due to economic slowdown. American and European luxury markets are showing slowing growth trends. The global financial crisis originated in the USA, and the EU-led sovereign debt crisis is causing further contraction of the premium market. Under these circumstances, the growth of the global premium market is being led by emerging economic powers, including China and India. Although China and India's premium markets have shown sharp growth in recent years, they are still quite new and have remarkable potential to grow further.

Global luxury brands are rushing into China and India. Seven out of the ten largest shopping centers in the world are located in China. One out of ten Bentleys, a major luxury car brand, is sold in China. Bentley Motors has successfully entered the Indian market, and Mercedez-Benz and Rolls-Royce are following suit. India's largest luxury brand shop is owned by Ermenegildo Zegna, a men's luxury clothing brand. Chanel and Louis Vuitton, well known luxury brands of high end women's apparel and designer products, have large shops in New Delhi, Mumbai, and other big cities in India.

With global brands rushing in, competition is mounting in China and India. Complacency, thinking that one pencil for each of the 1.3 billion people in China equals 1.3 billion pencils sold, is doomed to fail.

Fortunately for Korea, Chinese and Indian consumers show a strong preference for Korean products. Korean products are popular and widely known in China; in India, Korean companies such as Samsung, LG, and POSCO are perceived as leading premium brands. With more aggressive marketing strategies and systematic support from the government and research institutes, the Korean economy has much to gain from the premium markets in China and India. C

China's craze for luxury goods

Hong Sun-Young
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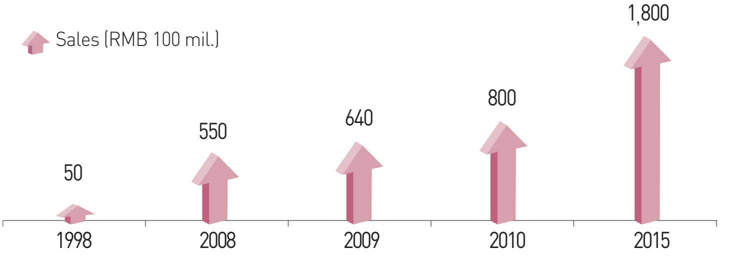
China has undisputedly emerged as one of the world's largest consumer markets for luxury goods. China's luxury market was merely RMB 5 billion in 1998, but grew almost 11-fold to RMB 55 billion by 2008. The market has been growing rapidly, by more than 20% each year since 2008. According to the World Luxury Association (WLA), China is the second biggest luxury goods market, with a 27% market share of global luxury goods consumption in 2011, slightly lower than Japan at 29%, and higher than the United States at 14% and Europe at 18%. The WLA also stated that China will overtake Japan as the world's top consumer of luxury goods by 2012.

Just as Chinese tourists on shopping sprees have caught everyone's attention in Korea, Chinese tourists are now showing off their high purchasing power in the UK, emerging as major consumers in the UK luxury market. British media coined the term "the Gucci generation" for wealthy Chinese tourists who readily buy luxury houses in London, expensive artwork, and premium wine. Chinese tourists spent roughly GBP 1 billion (USD 1.57 billion) on luxury goods during the 2010 Christmas sale season in the UK. In the UK, Chinese expenditures accounted for a third of luxury brand sales, including Louis Vuitton, Gucci, and Burberry. For this reason, countries such as the USA, the UK, and Japan are doing their best to attract Chinese travelers through various measures, easing strict visa restrictions and developing tour programs. The Chinese are now the main pillar of the global luxury market. The buying power of China's rich not only increases profits of luxury brands, but also influences whole economies and industries.

High consumption by women and the younger generation

The reason the world should pay attention to wealthy Chinese is that the Chinese premium market is large and growing rapidly. According to World Bank reports, the top 1% of Chinese households holds 41.4% of national wealth. Ji Baocheng (紀寶成), President of Renmin University of China, stated in the National People's Congress that the richest 10% of Chinese people own 80% of the country's collective wealth. In other words, wealth

Increasing luxury consumption in China



Source: *McKinsey Insights China*, Deutsche Bank in China is more highly concentrated in the high-income bracket than it is in other countries. Therefore, the rich have high purchasing power out of proportion to their share of the total population. With China's economic growth rate remaining high, the upper class in China is expected to expand significantly. The number of Chinese people with incomes over USD 10,000 is currently 160 million, 12% of the total population. This is a threefold increase from 2005. The higher the people's income, the faster consumption grows. The average household spending of the wealthiest 10% increased 4.8-fold from RMB 6,000 in 2005 to RMB 29,000 in 2009—the highest rate of increase in a four-year time span.

One of the distinctive characteristics of Chinese high income earners is their young age. Chinese between the ages 25 and 34 have the highest income, unlike in other countries where the highest income earners are in their forties. The average age of Chinese billionaires is 39 years old, far lower than the global average of 54. The reason is presumably that young Chinese people possess high levels of education and skills. For the same reason, they are different from other age groups in terms of their preferred

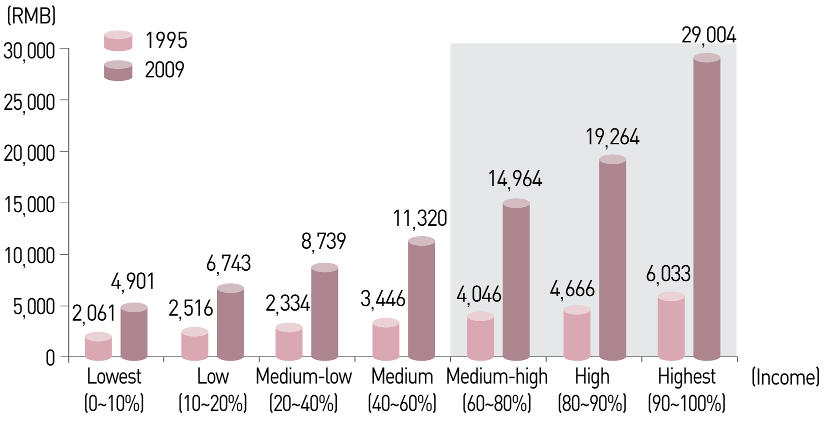
Changes in income distribution

Source: Euromonitor

brands and brand exposure paths. While middle-aged and older people learn about luxury goods through acquaintances and conventional media, the younger generations get information on the Internet and buy luxury goods through overseas sites or purchasing agency services. The motivation for buying luxury goods varies from desire to display wealth to the quality and utility of the product itself to self-satisfaction.

Another characteristic of China's rich is a high proportion of women. Women are given the same opportunities in education and society as men, hence Chinese women's income level is higher than that of women in other countries. The Hurun Research Institute (胡潤) released a report showing that China has over 875,000 multimillionaires, up 6.1% from the previous year, and one third of them are women. Female consumers show high purchasing power in the premium market. According to a McKinsey & Co. survey, women accounted for more than half of the USD 15 billion in Chinese luxury goods sales in 2010, an increase from 45% in 2008. The average female luxury consumer in China also spent 22% more in 2010 than in 2008, while men spent only 10% more.

Spending increase by income level



Source: Euromonitor

With the premium market in advanced countries at a plateau due to economic slowdown, China's luxury market will attract more attention.

Wealthy Chinese women have an impact on male-dominated markets, such as cars and high-end spirits, as well as cosmetics and designer clothing. Maserati, a well-known Italian luxury sports car manufacturer, sold 400 cars in China last year, 50% more than the previous year. Women account for 30% of Maserati's sales in China, compared to less than 10% in Europe. Ferrari and Lamborghini also reported that the percentage of women buying their cars in China is more than double the global average. More women buy whisky in China than in the West. Companies in the related industries are modifying their marketing strategies, developing products tailored to women, for example.

The preference for luxury brands spreading to small and medium-sized cities

The number of rich people has been growing in tier 2 and tier 3 cities. In the decade starting in 2000, the urbanization rate in China surged from 34.8% to 46.6%. In tier 2 and tier 3 cities, opportunities for economic growth and employment have expanded due to government investment in infrastructure, such as the Rise of Central China Plan and China Western Development, combined with the relocation of plants looking for cheap labor costs. Approximately 30% of the well-to-do in China currently live in big cities, including Beijing, Shanghai, Guangzhou, and Shenzhen, but by 2015, about 75% are expected to live in tier 2 or tier 3 cities.

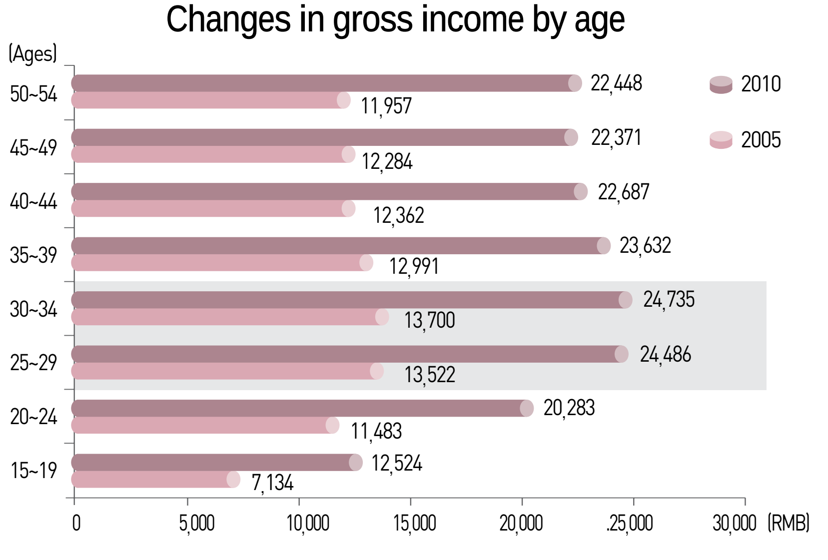
Luxury brands are actively entering tier 2 and tier 3 cities in response to changing consumer demographics. Louis Vuitton and Gucci are expanding into cities like Chengdu, Chongqing, and Changsha, while Volkswagen and

BMW are planning to open new dealerships mainly in tier 2 and tier 3 cities. With the expansion of transportation and distribution infrastructure, including highways and high-speed trains, wider consumption districts, with a big city at the center and tier 2 or tier 3 cities on the periphery, are being created. As going shopping in big cities becomes easier, as information on new products is more readily available, and as fashion cycles become faster, consumption by the rich in tier 2 and tier 3 cities is expected to surge.

Luxury brands tailored to China's needs

With the premium market in advanced countries at a plateau due to economic slowdown, China's luxury market will attract more attention. The competition to win Chinese hearts will be fierce among luxury goods companies.

More products tailored to China's needs will hit the market. French fashion label Hermes worked with a famous Chinese designer to launch a distinctive new brand, Shang Xia. The list of "Made for China" products



Source: Euromonitor

goes on: dENiZEN by Levi's was designed to fit the slim Chinese body type, and the new long-wheelbase BMW 5 Series Sedan was designed to cater to the Chinese preference for big sedans.

These products will play a major role in the companies' entry into regions outside of China as well. A US-based manufacturer of sanitary ware released Numi, a smart toilet, targeting Chinese consumers. Because bathrooms in China are typically cold, Numi issues warm air from a floor-level vent to heat the floor and warm the user's feet. It is also equipped with a touch screen to control various functions, including music, video games, and e-books, in order to satisfy the Chinese taste for entertainment. Milan-based Yoox.com, which sells discount designer fashion online, has selected China as a test market for its standby service, a system Yoox has arranged with FedEx where the deliverer waits at the door in case the customer is dissatisfied with the delivered product and decides to return the item to Yoox. If this service is successful in China, Yoox's largest market, the company will expand the service to other countries.

Currently, there are many companies differentiating themselves with products tailored to the Chinese. However, after some time, the products themselves become insufficient to make a company stand out. At that point, the most important asset might be the differentiated brand image the company has come to own. Recently, South Korean fashion retailer E-Land Group, which has been growing by approximately 50% each year, recorded KRW 1.2 trillion in sales in China alone. In order to boost its brand image in the Chinese market, E-Land acquired Mandarina Duck, an Italian-based brand that offers luxury luggage and travel accessories, and established a joint venture partnership with Kate Spade, an American fashion label. The Chinese consumer market has great potential, and, therefore, companies should focus on brand management centered on the Chinese premium market, in addition to developing products tailored for the Chinese market. C

China's great cause: "Create Chinese brands"

Shim Sang-Hyung
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Transformers is an American film franchise that depicts the showdown between the Autobots, who try to save the Earth and Humanity, and the Decepticons, who try to control Humanity. The third film in the series, with sports cars transforming into sleek robots and other eye-catching visual effects, hit the box office last summer and drew 7.4 million viewers in Korea alone.

Something caught my attention in the scenes that take place at the company where Sam, the main protagonist, is employed. Various notebook computer models bearing the Lenovo logo appear throughout the scenes. Lenovo pursued an indirect advertising strategy for maximum publicity effect by becoming one of the official sponsors of the movie. As former installments of the series have become mega hits, the competition for and costs of being a sponsor must have been enormous. At the entrances of theaters in Korea, images of Lenovo products were displayed with the line “transformable and innovative like Transformers”. Demand for Lenovo products among Korean consumers has reportedly increased since the movie’s release. Lenovo has been extremely successful in exposing consumers to the company and creating a brand image.

Desire to become a multinational brand

Chinese PC manufacturer Lianxiang (聯想) acquired IBM’s Personal Computing Division in 2004 and changed its name to “Lenovo”, a name derived from the “Le-” from “legend” and “novo”, the pseudo-Latin for “new”. For a while, Lenovo had a difficult time with post-merger integration and saw its margins declining. However, with its sales for the second quarter of 2011 up 23.1% year-on-year, Lenovo became the world’s third largest PC vendor, boasting the highest growth rate in the global PC industry in the last seven years.

Lenovo has something to worry about, though. While 80% of sales in its PC operation, which accounts for 60% of the company’s business, comes from China, only about 6% comes from the USA. This means that the dramatic development over the last two years is only attributed to the robust Chinese domestic market; this blurs the iconic “China Power” image of Lenovo, which leapfrogged into a global technology brand with the acquisition of IBM, the leader of the PC industry. In May of 2011, Lenovo decided to build a new plant through a joint venture with Japanese electronics company NEC. In addition, by acquiring German computer and consumer electronics maker Medion, Lenovo strengthened production and distribution bases in advanced countries and set out to promote the company and its brand. These efforts have a single reason. Lenovo is driven by a strong desire to become a multinational company with a world-class brand.

The Chinese government is offering active policy support to aid brand strategies of Chinese companies. This support came from the idea that it is imperative to build independent, innovative capabilities and to create world-class brands in order to elevate China's position from the low-to-middle levels of the global manufacturing value chain, boosting its international competitiveness. It is very common for global brands to produce parts and materials in China and finish processing and assembling there, but China possesses few products with their own brand power.

The Chinese government added to its 12th Five-Year Plan the goals of establishing a global sales network and nurturing Chinese brands to a global level, showing its commitment to becoming a "brand power nation". Earlier this year, China's Ministry of Industry and Information Technology announced policies to support overseas trademark registration and patent applications for Chinese brands in order to solidify the footing of Chinese electronics brands, and to encourage Chinese electronics companies to

Top 10 of China's 500 most valuable brands in 2011

Ranking	Brand	Industry	Brand value (RMB 100 Mil.)
1	Industrial and Commercial Bank of China	Bank	2162.85
2	State Grid (国家电网)	Power	1876.96
3	China Mobile (中国移动通信)	Telecommunications	1829.67
4	CCTV	Broadcasting	1261.29
5	China Life (中国人寿)	Insurance	1035.51
6	China National Petroleum	Petroleum	1006.23
7	Sinochem	Petroleum	958.57
8	Huawei	Telecommunications	867.46
9	First Automobile Works (FAW)	Automotive	842.66
10	Lenovo	Electronics	825.91

Source: china.org.cn (June 30, 2011)

participate in overseas exhibitions and take part in M&A's and joint ventures with foreign companies.

Global brands dominating China's premium market

The 2011 list of China's 500 most valuable brands, released in June of 2011, shows that most of the highest ranked companies are large, state-owned infrastructure enterprises (banks, power, petroleum, etc.), including the Industrial Commercial Bank of China, which ranked first. The only consumer goods companies on the list are First Automobile Works (FAW) (中国一汽) at 9th and Lenovo, which ranked 10th. On the other hand, the average market share of the top ten brands in the Chinese consumer goods market was 69.9%, according to the 2010 statistics of the National Bureau of Statistics of China. This figure shows that brand consumption has taken root with Chinese consumers. In terms of home appliances, the market share of the top 10 brands was 81.3%, showing the strong influence of brands on consumption. The market share of food brands was approximately 70%, while that of cultural and office product brands was about 80%.

It is imperative to create world-class brands in order to elevate China' s position from the low-to-middle levels of the global manufacturing value chain.

With few high-end Chinese brands, global luxury brands, such as Burberry, Hugo Boss, and Armani, had the highest growth in sales in the women's apparel market, which grew by almost 30% last year. As wealthy Chinese come to prefer high-end goods in line with their increasing incomes and standard of living, their consumption of luxury goods also increases—a big windfall for foreign companies.

The changing consumption pattern of the Chinese is also well reflected in their consumption of automobiles, a good example of durable goods with rising sales. Thanks to Chinese government policies that nurture local automakers, Chinese automakers, including Chery Motors and Geely Motors, seemed to make modest progress in the mid-2000s. Later, Chinese consumers with growing buying power chose cars manufactured by foreign-invested joint ventures, such as Volkswagen, GM, and Hyundai Motors. Having been nudged aside in the areas of quality, design, and brand power, Chinese carmakers have been pursuing strategies to acquire technologies and brands quickly through M&A's with companies from advanced countries. Following Geely's acquisition of Volvo in 2010, Zhejiang Youngman Lotus Automobile (浙江青年) bought shares of SAAB in June of 2011. Chinese firms' M&A's of advanced companies in the consumer goods sector will increase in the future. In particular, companies in Europe are expected to be potential target companies, rather than those in the USA, which has strict M&A regulations for companies having strategic products or advanced technologies.

A brand power nation—a long and treacherous way to go

In the early stage of a brand lifecycle, the brand becomes a guarantee of quality. In the next stage, the individuality and preferences of the consumer are well reflected in the brand. Going one stage further, the brand ownership creates personal identities, and brands create social values and hierarchy. In the final stage, the values of the brand are extended beyond the product and become the encompassing image of the company (Tan & Ming, 2003). Only when companies pursue a range of carefully planned brand strategies over a long time will they be able to reach a level of brand power as high as that of Apple. This is why expectations come hand in hand with worries about the haste of Chinese companies and of the government to satisfy their craving for brand power. C

India, no longer a low-end market

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Whenever I go to India for business, I make some time to drop by the shopping malls, where I can feel the changes happening in India, directly or indirectly, especially changes in consumption trends and corporate response strategies.

Some time ago, the look of appliance stores changed completely. First of all, the television sets on display have changed. CRT TV’s with their bulging backs are hard to find; instead, an array of flat panel TV’s is on display. Screen sizes have become much larger, and home theater systems are shown. In terms of televisions, stores in India look not that different from those in Korea.

What about food and beverage stores? Coffee products are now on sale in India, a country of tea; coffee mixes with creamer and sugar have hit the market. Various types of coffee are displayed according to flavor and area of origin, including Brazil, Columbia, and Kilimanjaro. Teas with special functions are found on tea selves: tea that is good for health, tea that is good for the brain and weight-loss, and tea that can be steeped in cold water. In the dried noodle section, many types of cup noodles are displayed along with other types of instant noodles.

Liquor stores were once barely noticeable in India, a sober country. Things have changed now. Many different types of beer can be found in various containers and volumes. At some stores, wine accounts for more than half the products on display. There seem to be six to eight types of wine which are all made in India. Almost all shopping centers have multiplex cinemas with elegant cafes and cozy rest areas.

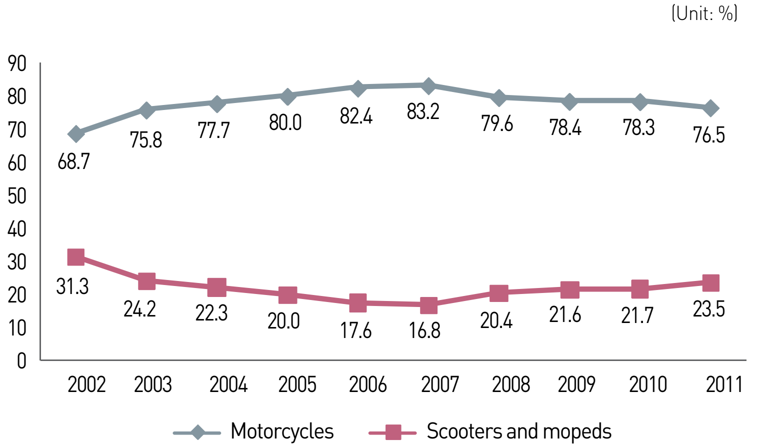
Scenery has changed on the road, too. In the past, taxis in Delhi were mostly Ambassadors made by Hindustan Motors. Now the street is a much more diversified and upscale scene with various types of taxis, such as Tata Indica and Indigo, and Hyundai Santro. For passenger cars, Suzuki Maruti 800 was ubiquitous on Indian streets in the past; now there are other types of vehicles, with a rising number of luxury cars.

Craze for luxury goods

In a nutshell, India's consumption market trend that is identifiable at shopping malls and on the street is high quality, high-functionality, and high price. This trend is called "premiumization". The increasing market demand for premium brands is called "premiumization of the market" or "trading-up"; these kinds of products are called "premium products" or "trade-up products".

By taking the sales of premium products into consideration, it is easy to recognize how high and strong India's passion for premium products is. In the Indian automotive market, passenger vehicles are classified into four to six types according to engine displacement: mini, compact, mid-size, executive, luxury, etc. Among them, compact cars have the largest market share, followed by mid-size cars. Mid-size cars are much higher-end and more expensive than compact cars. However, the share of compact cars has

Changing shares of two-wheeled vehicles in India



Source: CEIC

recently decreased, while that of mid-size cars has noticeably increased. The market share of compact cars was 75% for January to August of 2009, and 74.1% for the entire year of 2009, but this figure dropped to 72.9% for January to July of 2010, and to 70.9% year-on-year. It dropped by four percentage points over the past two years. For the same period, the share of mid-size cars rose by 1.9 percentage points, from 18.1% to 20.0%.

The same is true for two-wheeled vehicles. Up until 2001, motorcycles made up 68.7% of the two-wheeled vehicle market, but in 2010, this figure increased to 76.5%. By contrast, the share of scooters and mopeds (a combination of motorcycle and bicycle) has dropped from 31.3% to 23.5% in the same period. Motorcycles are more luxurious than scooters or mopeds in terms of price, performance, and engine size.

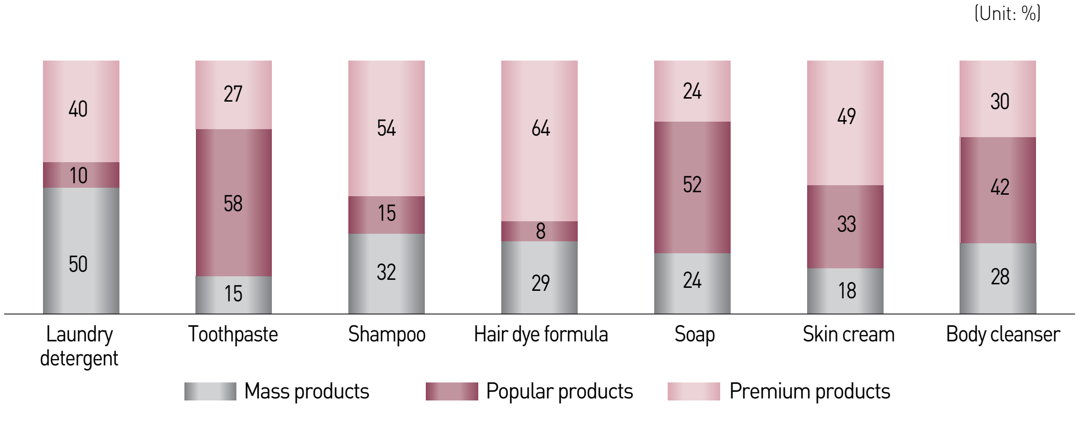
A 30% increase in sales of flat panel TV's and double-door refrigerators

"Premiumization" in sales trends is well reflected in Diwali, India's biggest festival and shopping occasion. According to the Retailers

Association of India (RAI), the 2010 Diwali season resulted in big gains for retailers, with sales rising by 50-80% compared to 2010. The rise was attributed to surges in the price of gold and premium product sales. Also, the Diwali season saw an increase of 25-30% in sales per retailer for premium consumer products like flat panel TV's and double-door refrigerators. DisplaySearch, a global leader in display market research, predicts that between 2012 and 2013, the sales of flat panel plasma displays will surpass that of bulky CRT's, whose current market share is 75%.

In biscuits and cooking oil, premium products that emphasize health and convenience are gaining ground. Parle Products, India's leading manufacturer of biscuits and confections, had only 15% of the market share of premium products four years ago, but this figure currently stands at almost 50%. With respect to household items, consumer spending on premium household products has recently surged. According to IMRB's market research on household consumption in the top eight metropolitan areas, consumption of premium shampoos in India jumped to 83.1% in the shampoo category between September 2009 and August 2010, from 68.3%

The share of premium goods in India's household products market (2008)



Source: Image, *Retail Report 2009*

between September 2008 and August 2009. The share of premium skin creams rose to 13.9% from 6.5% in the same period, and that of premium talcum powders rose to 7.9% from 6.2%.

A company' s share in the Indian premium market has become a determinant for not only short-term results but also for its long-term growth.

According to India's retail and distribution institution, in 2008 premium shampoos and hair dye formulas accounted for more than half of total sales in their categories, and premium laundry detergents and skin creams accounted for more than 40% of total sales. Premiumization in men's shoes, which seemed slow to react to latest trends and premium products, is happening rapidly. India's footwear market grows by about 9% annually, but the growth rate of premium brands such as Bata and Reebok reaches 20%. Premium footwear accounts for half of total footwear sales in India.

Premiumization, faster than expected

Indian consumers prefer premium products for the same reasons as consumers in other countries and regions. What is distinctive here is that the rate of premiumization in India is faster and more widespread than expected. As the middle class has broadened and their consumption pattern has changed from "saving" to "satisfaction" or "value", premiumization is increasing. When consumers are willing to pay extra money for superior products, the phenomenon of premiumization, or trading-up, begins. Premiumization accelerates further when people earn more and their desire for a better life and more convenience becomes stronger, and when corporate competition becomes fiercer and product lifecycles become shorter.

Due to India's high growth rates since 2003, household income has increased astronomically. Statistics of Global Insight, a leading provider of global economic outlook, show that India's per capita income surpassed USD 400 in 1996, and took seven years to reach USD 500 in 2003. However, per capita income has grown by more than USD 100 every year since 2003, to a record of about USD 1,350 in 2010. With household income rising, the middle class and their purchasing power are also expanding. A McKinsey report predicted that the number of Indian middle class with an annual household income of USD 4,500-11,300 will reach 250 million in 2015, a 450% increase from 45 million in 2005. Indian consumption patterns are bound to change.

When income increases, consumption naturally increases, resulting in conspicuous consumption. Consumers are willing to pay a much higher price for essentially the same product; this is called the Veblen effect. In addition, the bandwagon effect arises when consumer demand concentrates on commodities that reflect higher preference. This is a snapshot of the Indian market. Companies never miss such an opportunity. They rush to release products with new functions, high quality, and convenience, accelerating the premiumization even further. A company's share in the Indian premium market has become a determinant for not only short-term results but also for its long-term growth.

Korean companies in India, bolstering premium strategies

Imm Jeong-Seong
Senior Business Analyst of POSCO Research Institute

Home appliance makers—early entry, belated returns

In July 2010, LG Electronics announced that it would shift its business strategy in India to premium marketing—trimming the number of models in its CRT range of color TV's from 54 to 32, and focusing more on LCD and PDP flat screen TV's. It also plans to increase production of premium home appliances, including double-door refrigerators, drum laundry machines, and stand-alone air-conditioners. LG Electronics noted the reason for the change to its business strategy: "Our market share is going to fall in the short term, but in the long term, the Indian consumer market is going premium." In India, LG Electronics currently has the largest market share in refrigerators, laundry machines, air-conditioners, and microwaves, but with its profits deteriorating, it was forced to make this decision in order to survive in the fast-paced, ever-changing Indian market.

Meanwhile, after some ups and downs since entering the Indian premium market in 2005, Samsung Electronics is finally smiling. In 2006, Samsung stopped manufacturing CRT TV's and shifted its focus to premium models such as flat screen TV's—a move criticized in and out of the company for many years. However, its bold move, removing or reducing low-technology and low value-added product lines, and changing its product portfolio to include premium and high value-added products, is now bearing positive results in its sales, profits, and brand image. In the mobile phone market in particular, where expansion was twofold that of the general home electronics market, Samsung was able to surpass LG in sales of 2010 as a result of its premium strategy.

However, the situation does not allow Samsung to remain complacent. Japanese companies, such as Sony, Panasonic, and Daikin, which have been waiting for the Indian premium market to open, are stepping up the offensive by building large plants in India, localizing products, expanding distribution channels, and bolstering their brand images. Retreating is not an option, since India's low-end market is already dominated by domestic companies, including Videocon and Onida, and Chinese makers such as Haier.

Auto makers with expanded portfolios

The pattern of changes in India's automotive market is more complicated. Just when the market dominated by compact cars was replaced by one dominated by mid-size cars, India's Tata Motors rolled out the Tata Nano, the world's cheapest car at INR 100,000. Global car makers followed suit, starting to sell compact cars or mini cars: Toyota (Etios, 1,200cc, INR 400,000), Nissan (mini cars priced at INR 130,000), GM, Ford and others. Under the circumstances, Hyundai Motors, the second largest car maker in India, was forced to strengthen its ultra low-cost product line. Hyundai Motors plans to complete the development of a new 800cc car model priced at INR 200,000. "Hyundai produces high-quality cars. Hyundai has strong dealer networks and more than 80% brand awareness, so it will continue to grow in India based on its strong compact car business," said Park Han-Woo, the head of Hyundai Motors India (HMI). Meanwhile, in response to the premiumization of the Indian market, Hyundai plans to manufacture Santa Fe, Avante, and Sonata in India, becoming the first automaker to offer a complete lineup in India.

The recent situation, wherein the Indian government's consistent increase of interest rates has led to falling demand for vehicles, will be a good opportunity for Hyundai to strengthen its internal system. Hyundai plans to unveil new types of cars and focus on promoting its brand awareness, instead of building new plants. Therefore, Hyundai has a competitive edge on its competitors, which have to build new plants or expand existing facilities amidst an economic downturn.

High-end and low-end markets—catching two birds at once

Not all companies should focus on India's increasing demand for premium products as the three large Korean companies have done. The market share of some low-end products accounts for 70-90% of the total market. Companies should decide their target markets after analyzing market size, competition structure, and their own competitive edge.

Bain & Co., a consulting firm, advises companies doing business in India to target both high-end and mass markets. Companies need to pursue economies of scale in production, distribution, and brand-building. To this end, it is advantageous for companies to focus not only on the luxury market but also on the mass market, dealing with a multitude of consumers.

This advice may seem unrealistic for many Korean companies. However, interpreting the premium strategy might change their minds about the advice. One Samsung employee in India said that Samsung's premium

After some ups and downs since entering the Indian premium market in 2005, Samsung Electronics is finally smiling.

strategy is to set the price of its products at least one dollar higher than that of its competitors'. For example, Samsung sells cheap twin tub washing machines, but with its silver nanotechnology, the product sells for five to six dollars more than its competing products. This is a strategy of adopting distinct functions (or localization of products), or employing new technologies, and making use of superior design and good brand image, thus leading consumers to open their purses.

Identifying Indian consumers' distinctive characteristics is a good way to survive in an Indian market with more premium products and stronger emphasis on brand power. When Indians buy products, they put more weight on value than price. This is true for all Indians, from the lower class to the upper class. Indians buy products only when they feel the value of the product they are paying for. Good function and quality is a must, and price should be low or reasonable. Due to this attitude of Indians, big Korean companies, such as LG Electronics, Samsung Electronics, and Hyundai Motors, which sell almost the same products in India as they sell in Korea, have been hailed in India for the past decade. Therefore, Korean small-sized enterprises with inferior brand power to Japanese or Western companies should roll out products of good quality that enable Indian consumers to feel the value beyond price, at a cheaper price than their competitors. Also, they should provide quality customer service. By doing so, small-sized enterprises will be able to win consumer trust and promote their brand image.

Indians are talkative and like to collect information. Because India is a community-based society, recommendations by family and friends are the largest factor in making purchasing decisions. In other words, word of mouth works better than expensive product campaigns, advertisements, or promotions. To this end, media such as the Internet or social network services (SNS) are useful. Korean SME's must seek a strategy of first targeting consumer groups with great influence, including opinion leaders or industry leaders, whose words will spread far and wide.

It was reported that what puzzled the employees of Samsung the most when they launched a premium strategy in India was that they could not distinguish consumers who would shop premium goods. If Korean companies want to advance in the Indian market, which still seems to be in fog, they must study the Indian market thoroughly, including Indian consumers, competing companies, and distribution structure, as well as monitor changes in the Indian market meticulously. C