

AN EXPLORATORY STUDY ON RETAIL SUPPLY CHAIN OF BRANDED JEWELLERY STORES IN INDIA

Kshitij Goyal

ABV-Indian Institute of Information Technology and Management,
Gwalior, MP, India, E-mail: kshtjgoyal06@gmail.com

Yash Daultani

ABV-Indian Institute of Information Technology and Management,
Gwalior, MP, India, E-mail: yash.daultani@gmail.com

Saurabh Pratap

Department of Mechanical Engineering, Indian Institute of Information Technology,
Jabalpur, MP, India, E-mail: s.pratapiitkgp@gmail.com

ABSTRACT

The purpose of this study is to explore issues and challenges in retail supply chain of branded jewellery stores in India. The branded jewellery industry is one of the fastest growing industry in India. With the changing customer lifestyle and buying patterns, it is very important to explore this area and the associated supply chain environment. This study facilitates to understand what attracts an Indian customer to purchase jewellery from branded jewellery stores instead of their traditional jewelers. This exploratory study is an attempt to understand retail operations and scope of branded jewellery in India. A comparison between the branded and non-branded jewellery stores and hallmark and non- hallmark jewellery is performed. The porter's five forces model is applied to the jewellery industry to understand the industry dynamics. At last, future scope and implications for the branded jewellery industry are derived.

Keywords: supply chain, retail, jewellery, brand.

1. INTRODUCTION

The Gems and Jewellery sector plays a significant role in the Indian economy, contributing around 7 per cent of the country's GDP and 15 per cent to India's total merchandise exports as on September, 2019. India is deemed to be the hub of the global jewellery market because of its low costs and availability of high-skilled labor. India is the world's largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies

Gold demand in India rose to 760.40 tonnes between January to December 2018. India's gems and jewellery exports stood at US\$ 4.99 billion between Apr 2019 –May 2019. The gems and jewellery market in India is home to more than 300,000 players, with the majority being small players. Its market size is about US\$ 75 billion as of 2017 and is expected to reach US\$ 100 billion by 2025. It contributes to 29 per cent to the global jewellery consumption. 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 also contributes a major chunk to the total foreign reserves of the country. The Goods and Services Tax (GST) will steer India's gold demand going forward. 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 unorganized players.

2. COMPARISON OF BRANDED AND NON-BRANDED JEWELLERY STORES IN INDIA

2.1 Non-branded or Local jewellery stores

Upon visiting different local jewelers, following points were observed.

- Gold rate followed by the jeweler is not standard or derived from any reliable source. Jewelers do not display any rates in store and vary them according to the situations. They try to attract customers by telling lower rates, or charge premium, which is later on discounted to convert the customer.
- There was no standardization of making charges. Hence, it can be varied from customer to customer. Proper criteria and reasoning for applying particular making charge was not justified.
- The purity standards were not followed properly. Only few jewelers are selling Hallmarked jewellery.
- Bargaining on the final invoice is practiced.
- Some of the Jewelers are not providing Tax- invoice/GST invoice and some even charge GST on normal estimate, which is not even having GST number mentioned on it.
- There is no proper buyback policy of the ornaments.
- Generally, there are no offers or schemes for customers but the personalized discounts are given at the time of billing.
- Local jewelers sometimes provide jewellery to the customers on credits.

2.2 Branded jewellery stores

Upon visiting different branded jewellery stores, following points were observed.

- Gold rate followed by the branded jewellery store is standardized from a reliable source. The Gold rate are displayed properly in stores so that it is visible to customers and is also mentioned in IT Software or company's online portal.
- The making charges are decided by the jewellery experts and proper criteria and procedure is followed to decide it. Making charges of each item are fixed and mentioned at the item tag itself, so no bias can be entertained.
- Most of the companies bring attractive offers on special occasions and festivals to attract customer footfall and introduce various savings schemes.
- The purity standards are highly followed and most of the branded jewellery stores sell hallmarked jewellery, which ensures the customer satisfaction.
- Billing in branded stores are through their online-centralized portal, which are managed by company. It ensures transparency and avoid any malpractice. The bill generated are taxed invoice with proper GST no. and format, the details of the item purchased, and the policies are mentioned clearly.
- The bargaining or additional discounts are not generally allowed in company stores.
- The branded jewellery stores keep the customer information and their requirements to follow up with them and to provide personalized shopping experience.
- There are various employee welfare programs and incentive for employee motivation.
- Prices are generally higher when compared to a non-branded store.

3. HALLMARK VS NON-HALLMARK JEWELLERY

The Indian Gold Market is not only one of the largest in the world; it is also responsible for creating some of the most beautiful, intricate and handmade jewellery. But gold jewellery is highly prone to adulteration of lower caratage and the industry has long been hampered by concerns around quality control. The non-hallmark jewellery does not have any surety of its purity. Some people make money by charging at 24 carat but selling 18 carat gold. Seller buys back their own gold at lower rate by deducting 10-20%. To combat purity concerns for consumers, the Bureau of Indian Standards (BIS) has introduced hallmarking standards and policies.

Hallmark indicates that the gold content in the jewellery has been evaluated and that the gold adheres to international standards of purity. That is to certify, that one can take the gold quality as claimed by the jewelers to be genuine. The hallmarking for gold carries five marks of Hallmark given by BIS. These marks are:

- BIS Standard Mark
- Purity Grade
- Assayer or Hallmarking Centre's mark
- Year of Marking
- Jeweler's Mark

All these hallmarks can be clearly found stamped on the jewellery, which is sold by the jeweler. In India, a government recognized hallmarking system called the BIS Hallmarking System is followed. This nationally accepted system is in sync with international standards and gives the customer the ability to get value on their jewels internationally. The BIS hallmarking can only done by assaying centres that have been certified after meeting a list of requirements and receiving complete training from the BIS team. Jewelers can stamp their jewellery with their own quality marks, which is another widely practiced part of the manufacturing process. However, with the verification and hallmarks of a third party like the BIS, which is recognized by the government there is increased credibility. The BIS is also very strict about its standards carrying out random checks and if the assayers fail to operate in conformance to their standards, their license to operate is revoked along with heavy penalty.

4. PORTER'S FIVE FORCES ANALYSIS FOR INDIAN JEWELLERY INDUSTRY

Porter's Five Force is a market analysis technique, which is generally used to analyze industry attractiveness. For Indian Jewelry Industry, the Porter's Five Force Model can be applied as follows.

4.1 Threat of new entrants

The threat ranges from moderate to very high. Moderate in sense, as the capital investment in jewellery market is very high due to costly inventory, which inhibits many players to enter the market and already big players with heavy stock and variety creates a tough competition. Whereas as jewellery can be made by anyone and there are plenty of wholesalers present in the market, which creates high risk of new entrants. Also now, many corporate companies are keeping an eye in this industry to launch their jewellery brands in the market.

4.2 Threat of substitutes

It is quite high. With so many options and stones for jewellery, there are many substitutes like metals being used (silver, stainless steel, plated vs solid gold, platinum) and the synthetic market - with synthetic and artificial jewellery being very common.

4.3 Bargaining power of customers

It is quite high. Consumers have lots of choice nowadays. The jewelry space is very crowded, especially with large brands like Tanishq, PC jewellers, Kalyan jewellers, Joy allukas etc. They hold great market value by creating service experience and delivering transparency. With so many options available and variety of discounts offerings making it a lot easier for people to find access to jewelry. With independent jewelers and smaller companies, customers may actually be able to bargain the price down.

4.4 Bargaining power of suppliers

It is quite high. Suppliers guard their sources and treat them with secrecy – one would not be able to ask a supplier, where they get their stock from because they would not tell anyone. It is all about connections in this industry and they guard their network fiercely. In addition, the product designs, finishing and quality are of much importance in this industry.

4.5 Industry rivalry

It is quite high. Lots of retailers, small businesses, and branded jewelers are already in the space and there is not much room for innovation or product differentiation. The large companies and brands command a high price for their product due to their brand loyalty and equity, making it an extremely competitive landscape.

5. RETAIL SUPPLY CHAIN OF BRANDED JEWELLERY STORES IN INDIA

The jewellery store supply chain starts from mining and ends at retail customer. This supply chain includes various stages, which can be broadly classified as mining, refining, manufacturing, distribution in form of exports and wholesale and finally reaching to retail customers (refer figure 1). Now days, a new distribution channel through online medium is also added. There are various value additions taking place through this value-chain.



Figure 1. A representative jewellery supply chain

Mining is a process, where the raw metals such as gold, silver etc. are mined from different mines. These raw metals are then taken up for refining process, where the gold or silver is brought into standard forms. This is the stage, where the true value addition takes place to these metals. At this stage, the gold can be sold in the bullion markets to different manufacturing companies at standard gold rates. The different manufacturing houses take up the standard gold generally 24k for jewellery making processes. The different jewellery houses specializes in different types such as antique, sheet work, casting etc. and different items of jewellery such as rings, necklaces, chains, bangles etc. At this stage, the role of small jewellery makers, goldsmiths, designers also came into play. In non-branded jewellery market, these small goldsmiths and jewellery makers fulfill their inventory needs. The manufactured jewellery items are then taken up for distribution, which is either through exports or through wholesalers. There are different types of wholesalers in jewellery market some of which specialize in one or two product category and source their stock from variety of manufacturers or some deal in all product categories serving the needs of the nearby markets. The wholesalers are also creating their own brands. They are also developing their brands by projecting

their values or developing their own manufacturing units. The wholesalers provide jewellery to variety of retailers, which make them available to the end users.

In case of branded jewellery retail stores, the supply chain is somewhat similar to generalized supply chain for jewellery market with some modifications. The branded jewellery companies are focusing on both forward and backward integration of the supply chain. In branded jewellery sectors, many brands develop their own manufacturing houses to fulfill major portion of their inventory needs across all stores. Brands who do not have their own manufacturing houses, makes agreements with other wholesalers to provide them with inventory and designs which match standards and help them to achieve competitive edge over their rivals. This jewellery procurement process generally takes place at firm's head office, so that the secrecy it maintained. Once the jewellery is selected and procured, it is generally transferred to respective store of the company across the country with proper branding, tagging, and certifications etc.

5.1 General Business Models of Branded Jewellery Firms

Generally, companies operates their stores in the following two business models namely —

- **COCO:** Company owned, Company operated — In COCO model, the stores are owned by the company and operated by company. In this model, the company itself invests in location (space), merchandise, branding, furniture, staff and daily expenses. There is no owner present in these types of stores. The entire store is managed and taken care by the Managers having different levels of authority.
- **FOFO:** Franchisee owned, Franchisee operated — In FOFO model, the stores are owned and operated by Franchisee itself. In this model, the franchisee owns the space/location, invests in merchandise, manages and hires the staff members, daily expenses and activities are taken care of by franchisee. The Company provides the store manager for smooth functioning of the store, along with the IT and software support, merchandise and inventory support, branding and marketing support, packaging etc. The franchisee enters in agreement with the company and pays royalty to the company.

5.2 General Retail Operations of a Branded Jewellery Store

Generally, companies have pre-decided format and roles for smooth functioning of the stores. At their corporate offices, various departments are assigned with respective heads and teams. These departments perform various functions, which helps in smooth functioning and coordinating the work at retail outlets and head office. Various departments are generally retail operations department, marketing department, merchandise department, accounts department, IT and online portal management department and HR department. A retail store consists of store manager, sales executives, cash and vault managers and accountants etc. The store manager reports to the store owner and retail operations head. Store manager is responsible for daily opening and closing of showroom; ensuring branch administration, logistics, security and smooth functioning of showroom by managing all support functions. Coordination between different departmental tasks becomes a prime task because of high supply chain complexity.

6. SCOPE FOR BRANDED JEWELLERY STORES IN INDIA

India's organized gems and jewelry retail market has been growing at a much faster pace in recent years than the unorganized one, since gold trade was liberalized with the scrapping of the gold control Act in 1990. The overall retail gems and jewellery sector is growing at 10% annually, while the organized retail segment is expanding around 30-40% in recent years. Purity of the precious metal and beautiful designs have been drawing more and more customers to organized

players; while higher income levels, rapid urbanization, rise in the number of working women and brightening economic growth prospects will continue to attract people to buy gold. Branded jewellery assures the quality and convenience, which is the main reason for declining business of traditional family jewelers. Now brands are focusing more to serve to all customer segments i.e. low value customers to high value customers.

In coming years, growth in Gems and Jewellery sector would be largely contributed by the development of large retailers/brands. Established brands are guiding the organized market and are opening opportunities to grow. Increasing penetration of organized players provides variety in terms of products and designs. Online sales are expected to account for 1-2 per cent of the fine jewellery segment by 2021-22. Better pricing, guarantee (for every purchase), third party purity certification and services such as free repair and appropriate buyback options can swing business in favor of organized players. Branded jewelry accounts for only 20 percent of the overall jewelry market today, even when its share has doubled since 2003. It is expected that the branded segment will account for 30 to 40 percent of the market in 2025. Also, relaxation of restrictions on gold import is likely to provide a fillip to the industry. The improvement in availability along with the reintroduction of low cost gold metal loans and likely stabilization of gold prices at lower levels is expected to drive volume growth for jewelers over short to medium term. The demand for jewellery is expected to be significantly supported by the recent positive developments in the industry. Riding this wave of phenomenal growth will not be possible without successful supply network optimization including all supply chain tiers (Daultani et al., 2015).

7. REFERENCES

- Asha, K., & Christopher, S. E. (2014). A Study on Buying Behaviour of Customers Towards Branded And Non-Branded Gold Jewellery With Reference To Kanyakumari District. *International Journal of Management*, 5(10), 105-114.
- Bose, P. P. (2011). Challenges and strategies for development of Indian gems and jewellery. *International Journal of Marketing and Management Research*, 2(3), 96-105.
- Cachon, G. P., & Kök, A. G. (2010). Competing manufacturers in a retail supply chain: On contractual form and coordination. *Management Science*, 56(3), 571-589.
- Cheng, D. S. (2013). Analyze the hotel industry in porter five competitive forces. *Journal of Global Business Management*, 9(3), 52.
- Daultani, Y., Kumar, S., Vaidya, O. S., & Tiwari, M. K. (2015). A supply chain network equilibrium model for operational and opportunism risk mitigation. *International Journal of Production Research*, 53(18), 5685-5715.
- Grundy, T. (2006). Rethinking and reinventing Michael Porter's five forces model. *Strategic Change*, 15(5), 213-229.
- Joseph, M. (2008). Impact of organized retailing on the unorganized sector (No. 222). Working Paper.
- Kannabiran, G., & Bhaumik, S. (2005). Corporate turnaround through effective supply chain management: the case of a leading jewellery manufacturer in India. *Supply Chain Management: An International Journal*, 10(5), 340-348.
- Prasad, D. V. V. (2010). Hallmarking in India: A Major Quality Initiative in the Largest Gold Jewellery Market in the World. *International Journal of Marketing Studies*, 2(1), 213-224.
- Vasan, M. (2018). Attitude of Customers towards Branded and Non-Branded Gold Jewellers-A Study. *Marriage*, 30, 21-4.
- Waller, M., Johnson, M. E., & Davis, T. (1999). Vendor-managed inventory in the retail supply chain. *Journal of business logistics*, 20, 183-204.