

India's Gems and Jewellery Sector : A Porter's Competition Analysis

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Abstract :The paper makes a Porter analysis of India's Gems and Jewellery Sector wherein India is a significant player in the world market both as a source of processed diamonds as well as a large consumer market. India is the largest consumer of gold and a predominant portion of gold jewellery manufactured is consumed in the domestic market. Since time immemorial, India has been synonymous with gems and jewellery. Gems and jewellery (GJ) sector has grown enormously and occupies an important position in the Indian economy. On an export level, the industry moved away from the stereotypical view as being simply a manufacturing center for low-cost products, to one offering a wide range of high quality jewellery featuring diamonds, gemstones, and worked gold. Availability of skilled manpower, manufacturing excellence, state-of-the-art technology, forward looking entrepreneurs, liberalized government policies and an extensive international marketing network has helped India establish itself as one of the leading jewellery centers in the world. It is leading foreign exchange earner and also one of the fastest growing industries in the country.

Present Scenario Of The Sector In India:

Presently, the gems and jewellery sector in India is largely unorganized. There are over 15000 players across the country in the gold processing industry, of which only about 80 players have a turnover of over US\$ 4.15 million (Rs 200 million). There are about 450,000 goldsmiths spread throughout the country. Even today, most of the jewellery made in India is hand made. The sector may be categorized into the following sub-sectors based on characteristics, processing techniques, preciousness in terms of price range and marketability.

1. Gemstones- Diamonds and colored Stones (Precious, Semi-precious, Synthetic)
2. Jewellery- Plain Gold, Studded, Silver
3. Pearls

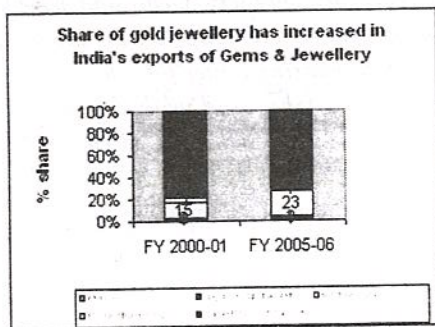
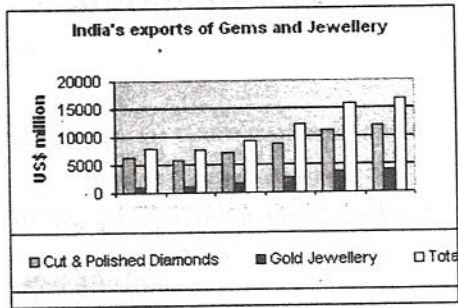
Family jewelers, constitute nearly 96 per cent of the market. Organized players such as Tata with its Tanishq brand have been growing steadily carving a 4 per cent market share. There are more than 6000 players in domestic diamond processing industry. The average gestation period for setting up a diamond cutting and polishing unit is 15 months.

The low gestation period, coupled with low capital cost allows easy entry into the sector, this is the reason for the large number of small-scale players. Just as in the case of jewellery, the share of the organized sector has increased significantly in recent years due to an increase in demand for better and finer quality finished goods. India now accounts for nearly 55% of world net exports of cut & polished diamonds in value terms, 90% in terms of pieces and 80% by caratage¹.

India is the largest consumer of gold in the world to be followed by China and Japan. India is emerging as world's largest trading center of this commodity with a target of US\$ 16 billion set for 2010. According to a World Gold Council press statement, in terms of tonnage, overall consumer demand in India in 2005 witnessed 17 percent growth over 2004. A consumer survey carried out for the WGC at the end of 2005 reveals the underlying strength of Indian gold demand remains robust and is underpinned by a strong economy and favourable demographics in gold's key target markets. While jewellery demand may have been constrained in the first weeks of 2006, a period of price stability is likely to see a strong level of buying once again.

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India Gems & Jewellery Industry – Highlights



Source: GJEPC, India²

- Gems and jewellery exports witnessed a 6.32% growth from US\$ 15.67 billion in fiscal 2004-05 to US\$ 16.66 billion in fiscal 2005-06.³
- Cut & Polished Diamonds (CPD) exports witnessed an increase of 6.07% from \$11181.56 million in the previous financial year to \$11860.49 million during fiscal 2005-06.
- Gold Jewellery Exports registered a growth of 1.28 percent with exports recorded at \$ 3861.57 million in fiscal 2005-06 as compared to \$ 3812.88 million in financial 2004-05.
- Colored Gemstones grew by 21.05% to \$ 233.32 million in FY 2005-06 compared to \$192.75 million in FY 2004-05.
- On the Import front, total imports of Gem and Jewellery grew by 11.79 percent to with increasing from \$11640.21 million in 2004-05 to \$ 13013.11 million in 2005-06. Rough Diamonds were imported to the tune of \$ 8708.98 million; Gold Bar for \$ 856.60 million and Cut & Polished Diamonds for \$ 3009.02 million.
- The United States, Hong Kong and UAE were the top export markets for the Indian

Gem and Jewellery products accounting for 28 percent, 21 percent and 15 percent of the total exports followed by Singapore and Belgium accounting for 9 percent and 8 percent respectively.

- The share of gold jewellery has increased in India's exports of gems and jewellery. There are a large number of jewellery clusters in India, Which are mainly the traditional pockets of jewellery manufacture.
- Surat is an important diamond-processing centre, which exports around 80 per cent of the production and has more than 3,500 diamond processing units.
- Jaipur is a key centre for polishing precious and semi-precious gemstones.
- Delhi and neighboring states are famous for silver jewellery and articles.
- Calcutta is popular for its lightweight plain gold jewellery. This category of jewellery finds a large market in Tamil Nadu.
- Hyderabad is the centre for precious and semi-precious studded jewellery.
- Nellore is a source for hand made jewellery that has been supplying the Chennai market for quite a few decades.
- Belgaum in Karnataka and Nellore together, specialize in studded jewellery using synthetic or imitation stones.
- Coimbatore in Tamil Nadu specializes in casting jewellery.
- Trichur is another source for lightweight gold jewellery and diamond cutting.

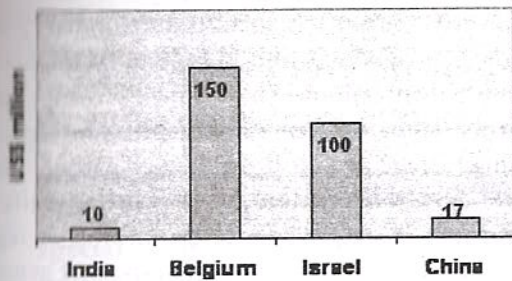
Clusters in Indian gems and jewellery industry



Source: KPMG Analysts

17. Mumbai is the centre for machine made jewellery. The city is also India's largest wholesale market in terms of volume.

Cost of cutting a diamond-2004 (US\$/Carat)



Source: Cygnus Industry Monitor, August 2005⁴ & G&JPC

INDIA'S COMPETITIVENESS: GEMS AND JEWELLERY INDUSTRY

The forward integration into jewellery manufacturing for export markets by Indian companies, which began in the late 1980s, has now turned the country into the fastest growing jewellery manufacturer in the world. It is not just the growth in exports but an overall development that this industry has attained, spurred by policy changes implemented by various governments over the past decade and even before. India has surpassed Italy and is now officially the largest gold jewellery producer in the world. According to the data from GFMS Ltd, India with gold jewellery production of 539 ton in 2005 was numero uno followed by Italy with 228 ton. Third spot went to China with 198 ton and Turkey was fourth with 197 ton. If scrap gold is included, India again emerged as No 1⁵.

Availability of factor conditions

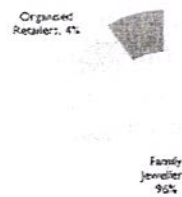
Availability of low cost skilled labor with advanced technical capabilities is a key strength of India's gems and jewellery sector. Artisans have vast traditional knowledge and expertise in jewellery making. India also has the largest resource pool in diamond cutting and processing. There are technically trained designers who are well versed in latest 2D and 3D design software.

India has one of the lowest costs in diamond cutting. This makes diamonds sourced from India much more profitable. For example, diamond jewellery, which costs between US\$ 60 and US\$ 90, can be sold in the overseas market for US\$ 180.

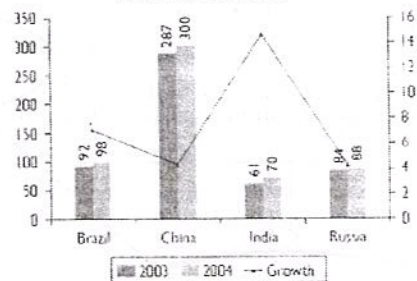
Firm strategy, Structure, Rivalry

The industry has a fragmented structure. With gradual emergence of the organized sector, including global players, competition has increased. This has ensured that firms work towards increasing their productivity and experimenting with different strategies to maintain and increase market share. Innovations in design, retail format, network and branding are improving overall capability levels within the industry. Different companies are packaging their designs in the form of exclusive collections to differentiate themselves and build brand equity.

Share of India's Gems and Jewellery Sector



Number of HNI in '000's



Source: World Economic Forum (WEF) 2005

Source: http://www.ibef.org/download/GemsandJewellery_sectoral.pdf

ANALYZING INDIA'S COMPETITIVENESS IN GEMS AND JEWELLERY INDUSTRY THROUGH PORTER'S DIAMOND:

Demand conditions

Many socio-economic factors influence the high demand for gems and jewellery in India. The main demand driver is the investment factor – gold and gold jewellery are regarded as investment, as they can easily be converted to cash. Changing consumer demographics are, however, leading to different demand drivers, which promise future growth potential for the industry such as large target consumer base and rising income levels.

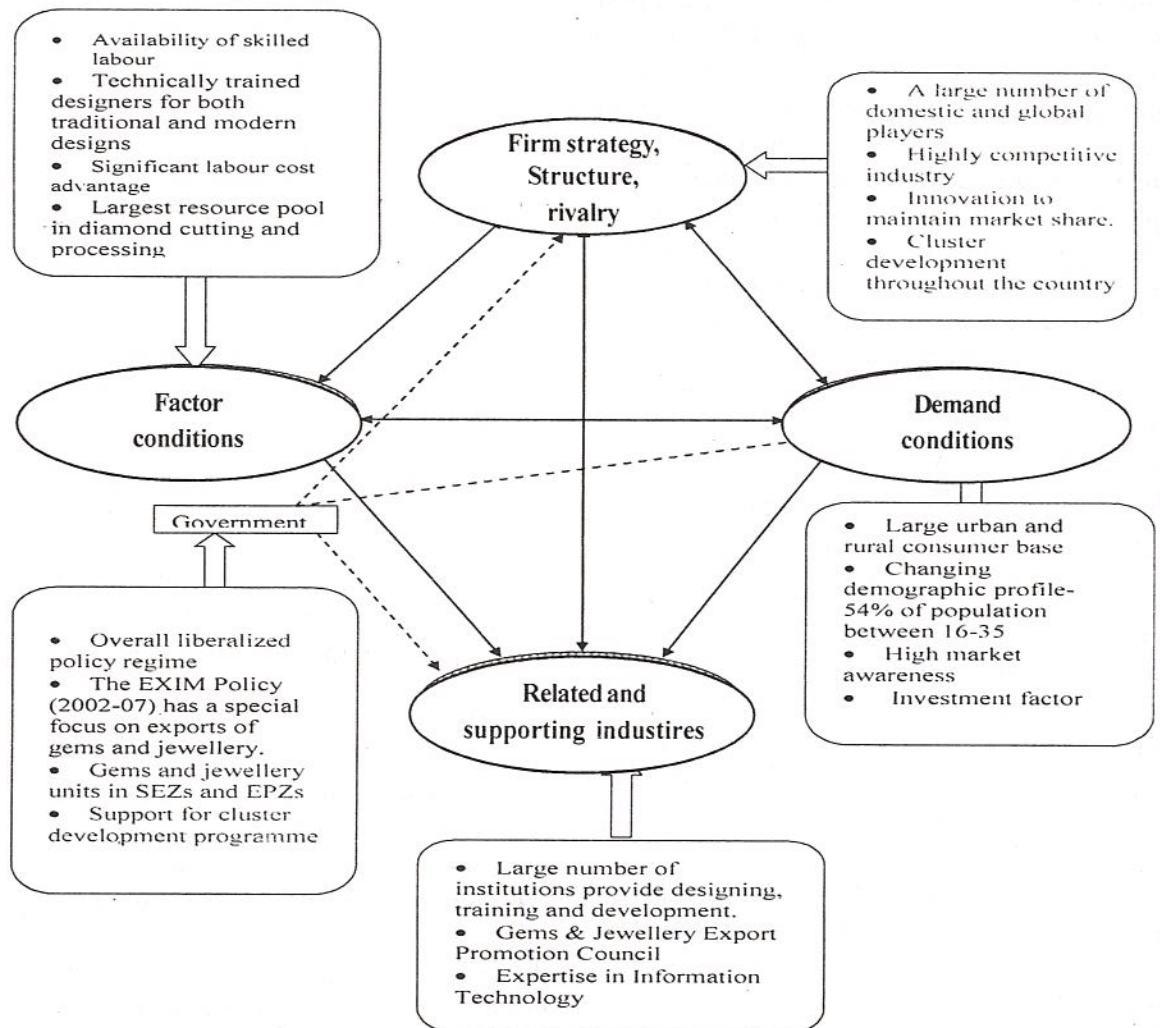
India population is nearly 23 per cent of the global population and is one of the most attractive consumer markets in the world today. Income levels across population segments have been growing in India.

Presence of related and supporting industries

There are a large number of institutions in India that support the designing and development of gems and jewellery and offer diploma courses in jewellery designing. Some of the institutes are NIFT (Mumbai), Indian Institute of Gems and Jewellery in Mumbai, Indian Diamond Institute (Surat), Jewellery Design & Training Institute (Noida), The Gemological Institute of India (Mumbai) etc. These courses provide inputs and training on the different kinds of stones, colour schemes in jewellery, design themes, presentation and framing, designing individual jewellery pieces, men's jewellery, costume jewellery, jewellery costing among other information.

These also provide a regular supply of trained manpower with the required skills and knowledge.

The Gem & Jewellery Export Promotion Council (GJEPC)⁶ is an all-India apex body representing more than 7000 jewellers from India. Its primary purpose is to introduce Indian gem & jewellery products to the international market and promote their exports. The Council provides market information to its members regarding foreign trade inquiries, trade and tariff regulations, rates of import duties, and information about jewellery fairs and exhibitions. Compilation & publishing of regular statistics related to the import & export of gems and jewellery items in India is also carried out. It is a link between foreign buyers interested in importing gems & jewellery from India and Indian exporters. The Journal House Publishing Group⁷ was established in the year 1963 and they are the pioneers in the field of Diamond, Gem & Jewellery journalism, in



India. Journal House Publishing Group encompasses both the Indian & foreign Gem & Jewellery Industry in its scope publishing an in-depth & exhaustive information package.

Government regulations and support

1. The government of India (GoI) has been quite supportive of the industry in introducing policies time and again that help boost exports.
2. The EXIM Policy for 2002-07 contains a special focus on exports of gems and jewellery through market access initiative schemes, duty free imports and appropriate adjustments in value addition norms.
3. The government has set up various special economic zones (SEZs)⁸ and Export Promotion Zones (EPZs) for gems and jewellery industry with specific incentives provided to units in SEZs. Examples include Santacruz Electronics Export Processing Zone (SEEPZ, Mumbai), Madras Export Processing Zone (MEPZ, Chennai) and Noida Export Processing Zone (NEPZ, Noida). These supply primarily diamond-studded jewellery, while a few units in the domestic tariff area (DTA) cater to the ethnic population overseas, supplying plain gold jewellery. The main markets of USA, Middle East and Europe account for more than 80 per cent of total jewellery exports.
4. The annual supplement 2006⁹ to the foreign trade policy 2004-09 introduces a number of measures for facilitating export of value added products, easier product movement across the borders and allows import of precious metal scrap for refining.
 - ◆ Import of precious metal scrap/used jewellery for melting and re-export of jewellery.
 - ◆ Re-import of rejected jewellery
 - ◆ Export of jewellery on consignment basis
 - ◆ Export of cut & polished stones for treatment and re-import
 - ◆ Value addition on jewellery exports reduced

OPPORTUNITIES ACROSS THE INDUSTRY VALUE CHAIN

The Indian Gems and Jewellery industry has significant potential. The following highlight the fact that gems and jewellery exports will continue to contribute significantly to our future exports.

Diamond Processing

At present, India is the world's leading diamond cutting and polishing centre. The US\$ 1.6 billion-strong Indian diamond business is expected to grow at a rate of 20 per cent with diamond industry successfully building confidence in the consumers, experts feel¹⁰.

In an analysis by ASSOCHAM¹¹, the demand for diamond jewellery as well as cut and polished diamond will rise by minimum 5% in the current fiscal as their buyers have been showing larger appetite for Indian diamond jewellery which is the best value addition done item.

Gold Jewellery

According to ASSOCHAM India's gold jewellery exports are poised to rise to \$6.77 billion by 2010, against its current export size of 3.76 billion. By 2015, Indian gold exports would further accelerate to \$10.3 billion, it added.

India will continue to remain the largest consumer of gold, the ASSOCHAM states, while projecting that domestic gold demand is expected to rise to 980.83 tons by 2010 and to 1152.64 tons by 2015, against the current demand of 800 tons.

FUTURE PROSPECTS

The Gems and Jewellery sector has a huge potential and the future is quite promising.

1. More and more buyers across the world are turning to India as their preferred source for quality jewellery. India has achieved a reputation of being world's leading diamond cutting and polishing centre for smaller stones.
2. The Gems and Jewellery Export Promotion Council (GJEPC) is looking at exploring new markets, such as Latin American countries. The industry also plans to make India a

trading centre for cut and polished diamonds.

3. The long-term prospects look good with jewellery exports expected to touch US \$16 billion in 2010 according to industry estimates. The Gems & Jewellery industry has a target to achieve 65 percent of the international market by 2010. A study by ICRA says the GJ exports from the country are likely to touch \$20 billion by 2007 with buyers from the US and European Union increasing bulk purchases of diamond studded jewellery from India because of its affordability¹².

SUGGESTIONS

1. The Indian gems and jewellery sector is largely unorganized, with a major portion belonging to family businesses. An organized industry would enable better implementation of rules and regulations. If brought together, these unorganised units would be able to pressurize the government for reduction in duties and improvement in promotion schemes.
2. Branding of the products would ensure their quality. A trademark on lines similar to 'Wool mark' would guarantee the world class quality of the product.
3. Standardization of the jewellery would also enable quality enhancement. A knowledge series by the GJEPC on jewellery manufacturing and technology would improve the quality and thus increase exports.

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