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Analysing Cost Management Practices in the Indian Jwellery Industry

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ABSTRACT

Indian jewellery is renowned for its unique design and craftsmanship, reflecting a rich history and cultural heritage. Jewellery holds a special place in Indian society, with almost every woman and many men adorning gold ornaments. The industry includes handmade and machine-made jewellery in both traditional and modern designs, with over 2.5 million family-run jewellery shops across the country. However, organized retail is emerging as consumers seek unique, contemporary designs.

India is one of the fastest-growing jewellery markets globally, driven by rising exports to major markets like the U.S. and Europe, increasing domestic demand, and factors such as rising purchasing power, lifestyle changes, hallmarking and certification, skilled artisans, and effective marketing. This research will explore the cost management strategies within this evolving industry to enhance profitability and competitive advantage.

This research article ***titled "Analysing Cost Management Practices in the Indian Jwellery Industry"*** provides a comprehensive overview of the origin, history, and growth of the Indian jewellery sector. It highlights the deep cultural significance and widespread appeal of jewellery in India, tracing its evolution from traditional hand-crafted designs to contemporary styles that cater to modern consumer preferences. By examining data related to the gold trade, government policies, gold production, import, export, and gold pricing in India, the article creates an awareness of the various facets that drive the industry. This historical and economic context sets the stage for understanding the intricate dynamics of the jewellery market and the factors influencing its growth trajectory.

In the context of our research on cost management analysis, this article serves as a foundational reference. Understanding the economic factors and government policies that impact the jewellery industry is crucial for analyzing how companies manage costs effectively. The insights into gold production, import, and export trends help identify the major cost components that companies need to manage. Additionally, the examination of gold prices provides a backdrop for assessing how fluctuations in raw material costs affect overall profitability. By linking historical and economic perspectives with contemporary cost management practices, our research aims to explore strategies that enhance profitability and competitive advantage in the Indian jewellery industry. This analysis is vital for stakeholders to navigate the complexities of cost management in a market characterized by both traditional values and modern demands.

Key Words: *Demand, Export, History, Import, Jewel, Price*.

1. INTRODUCTION

The word 'Jewellery' is derived from the word jewel, which was anglicized from the Old French word "joule" in the 13thCentury. Further tracing leads back to the Latin word "jocale" meaning plaything. Jewellery is a form of personal adornment, made from any material usually precious gem stones, beads or shells. In India, gold jewellery is a storehouse of value, a symbol of wealth and a fundamental part of many rituals. 85 per cent of the jewellery being sold in India is gold jewellery. Gold remains the Indian bride's streedhan, the only wealth she takes with her when she goes to her new home.

The preciousness of this shiny metal has made it a favourite investment tool of millions of Indians. That it can also be used for adornment is the further icing of the cake. Indian jewellery presents the ancient art of jewellery designing and amazing craftsmanship that is very unique.Pure gold is designated as 24 karat. Because of the softness of pure gold, it is usually alloyed with base metals for use in jewellery, altering its hardness, ductility, melting, colour and other properties. In India the most desired is 22 karat, which has a gold content of 91.6 per cent. Gold jewellery is also made by number of methods using equipments and modern machines in jewel factories.

Gold Trade and Government Policy

Government policy regarding gold trade in India is given as a timeline in the following table.

Table 1: Gold Trade and Government Policy

Year	Policy
1947-1962	Import of gold was prohibited
1963	Gold Control Orders-contained tight controls on gold-related activities
1968	Gold Control Act-contained tight controls on gold related activities
1990	Repeal of gold Control Act-the government allowed large export houses to import gold freely
1993	Gold and diamond mining were opened up for private investors
1997	Overseas banks and billion suppliers were also allowed to import gold into India.
1997-2002 (Export import policy)	Scheduled commercial banks were authorized by Reserve Bank of India to import gold and silver for domestic sale without an import license.
2000	14 banks and institutions were involved in the import of gold.
2011	30 banks were authorized to import gold and silver.
2013	Government raised import duty on gold from 2 per cent to 8 per cent in order to curb imports.
2014	Government further raised the import duly to 10 per cent. The government also made it mandatory to export 20 per cent of the imported gold.
2016	Government levied 1 per cent excise duty on gold jewellery. PAN card for jewellery purchase of above Rs.2 lakhs in order to curb black money.
2017	GST on Gold is 3%.

Source: https://en.wikipedia.org/wiki/The_Gold_(Contol)_Act,1968

2. GOLD PRODUCTION AND MINING

Gold is a rare metal. Gold is produced from mines on every continent except Antarctica, where mining is prohibited. There are several hundred gold mines operating worldwide ranging in scale from minor to enormous. At present there are more than 400 mines in the world. Gold mining is geographically dispersed. Forty per cent of the annual gold production and mining comes from South Africa, United States, Australia and Russia. The world gold production stood at 2500 tonnes in 2010. The biggest gold mining company is the Canada's Barrick Gold Corporation which produced 194.4 tonnes of gold in 2014. In India, gold was first mined in the area of the Kolar Gold Field (KGF) in Karnataka.

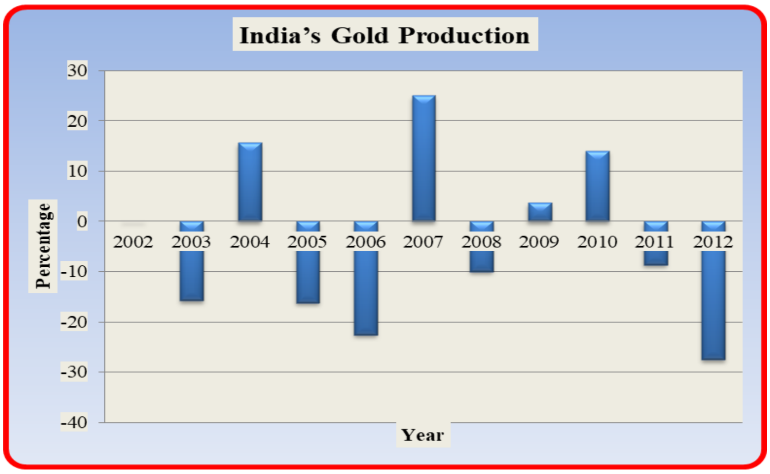
Kolar gold fields in Karnataka which was operated by Bharat Gold Mines ltd., (BGML) is considered to be the world's second deepest gold mine. Kolar gold field was shut down a decade ago, it turned uneconomical. India was a leading gold producing country a century ago when there were about 100 big and small gold mines in operations. The country ranked 6th amongst the gold producing countries of the world with a production of 19.5 tonnes in 1905. Today it produces only around 4 tones which is a mere 0.4 per cent of its gold consumption. Table 2 reveals data on gold production in India from the year 2002 to 2012.

Table 2: India's Gold Production

Year	Production	Unit of Measure	Percentage
2002	3800	Kilograms	NA
2003	3200	Kilograms	-15.79
2004	3700	Kilograms	15.63
2005	3100	Kilograms	-16.22
2006	2400	Kilograms	-22.58
2007	3000	Kilograms	25.00
2008	2700	Kilograms	-10.00
2009	2800	Kilograms	3.70
2010	2399	Kilograms	14.00
2011	2192	Kilograms	-8.63
2012	1589	Kilograms	-27.51

Source: United States Geological Survey (USGS)

Figure1: India's Gold Production



India has massive refined gold reserves estimated at 14,000 tones, with the bulk of gold being held as jewellery. Most gold is sold to Indian nationals. Hutti Gold Mine Company is the only company in India producing gold. It is owned by the Karnataka government and produces approximately 3 tonnes of gold a year from reserves estimated at 600 tones. Deccan gold mines limited, which mainly deals with gold exploration is the only one gold mining company that is listed in stock exchange.

Imports

The demand for gold in India is very healthy. But the supply of gold from domestic sources i.e., from mine production is less than 4 tonnes a year. This output proves less than 1per cent of India's annual gold demand. India's total gold resource could only supply current demand for about 33 days. India has a demand of 800 tonnes of gold per annum for creation of jewellery. Of this 800 tonnes, two – thirds is imported. So to solve the supply problem, India must import its gold. India is the largest importer of the yellow metal in the world after China. MMTC is the largest importer of gold and silver in India. At present, 30 banks and institutions are activelyengaged in the import of gold. The quantum of gold imported through these banks has been in the range of 500 tonnes per year. Approximately 65 per cent of Indian gold imports come from South Africa and Australia. From 2000 to 2007, gold imports by India was between 400 – 800 tonnes every year. Following the lifting of the ban and permitting of gold imports in 1992, the rate of imports increased. Table 3 reveals imports of gold in India from 2006 to 2017.

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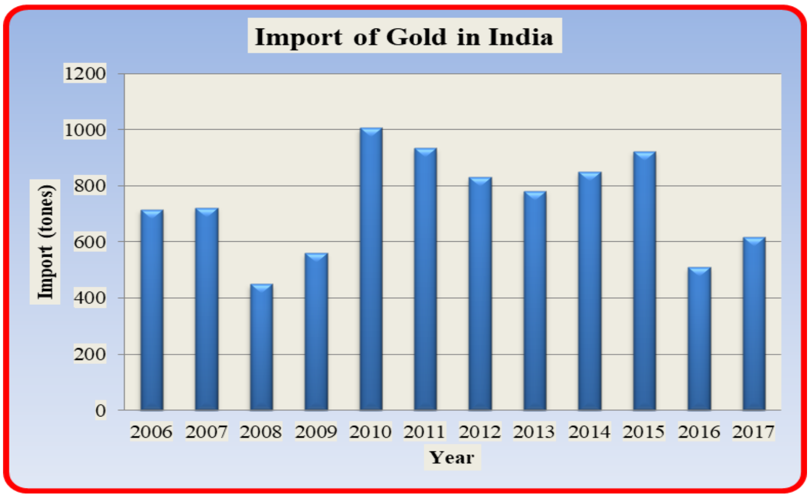
Table 3: Import of Gold in India

Year	Import(tones)
2006	715
2007	722
2008	450
2009	559
2010	1006.3
2011	933.4
2012	830
2013	782
2014	849
2015	922.46
2016	510
2017	617.5 (up to first 8 months)

Source: www.business-standard.com

Figure2: Import of Gold in India



India imported 715 tonnes of gold in 2006 and 722 tonnes in 2007. In 2008, India's gold imports dipped by 45 per cent to touch 450 tonnes. Global economic meltdown, uncertainty in stocks andcommodities markets and validity in gold prices caused a major impact on India's gold imports in 2008.

In 2009, India imported 559 tonnes of gold and in 2010 gold imports increased to 1006.3 tonnes. Strong jewellery sales and consumer investment demand for gold were the main drivers for the surge in gold imports in 2010. In 2011 gold imports fell by 7 per cent to 933.4 tonnes. The hike in import duty further decreased the imports to 830 tonnes in 2012. Gold imports during 2014 was 769 tonnes and during the same year, the government has seized 175tonnes of gold. In 2016 imports decreased to 510 tonnes from 922.46 tonnes in 2015 due to demonetization policy of the government.

Export

After manufacturing the jewellery, it is then exported and retained for domestic use. India currently exports a small portion of gold jewellery, and most of the jewellery products is consumed in the domestic market. Jewellery is a leading sector for foreign exchange generation. It accounts for around 15 per cent of India's total merchandise exports. Majority of the gems and jewellery products are sent to the sophisticated markets in the USA, Europe, Far East, Middle East and Asia. Indian exporters are also exploring other new markets including South America and East Asia.

The key export destinations for Indian gems and jewellery in 2013-14 are UAE with 35 per cent of export valued at $12 billion followed by Hong Kong that stood at 28 per cent with value of $9 billion and USA at 14 per cent with export value of $5 billion. Table 4 shows details regarding export of gold jewellery from India from 2006 to 2016.

Table 4: Export of Gold Jewellery from India

Year	Exports (US $) billion
2006	17.10
2007	20.88
2008	25.11
2009	27.00
2010	37.14
2011	43.13
2012	42.8
2013	37.74
2014	34.00
2015	32.63
2016	35.55

Source: GJEPC

Figure3: Export of Gold Jewellery from India

During the year 2006-2007 Indian gems and jewellery industry made exports worth US $17.1 billion. In the year 2007-2008, this number increased to US $20.88 billion, with a growth rate of 22.27 per cent. Of this total export, about 26.91 per cent were gold jewellery, while diamond jewellery constituted 70.59 per cent. During the first half of the 2008-2009 fiscal period, the export rate rose by 17 per cent, and reached US $9. 05 billion, and by the end of 2009 the export reached US $25.11 billion. In the year 2010, this grew even further and reached US $ 37.14 gem and jewellery exports in 2011 was US $ 43.13 billion during the financial year 2011-2012 exports of gem and jewellery was US $ 42.8 billion. Export of gem and jewellery during 2012-13 was $37.74 billion. Indian gem and jewellery export declined by 11 per cent at $ 34 billion in 2013-14 compared to the same period in previous year 2012-13. The significant decrease in the gems and jewellery export is attributed to the drastic decline in the gold jewellery and gold medallion export at 39.50 per cent during the year. Export of gem and jewellery from increased from $32.63 billion in 2015 to $35.55 billion in 2016.

Gold Price

The price of gold is determined through trading in the gold and derivatives markets, but a procedure known as the gold fixing in London, originating in September 1919, provides a daily benchmark price to the industry. The afternoon fixing was introduced in 1968 to provide a price when US markets are open.

Gold price is fixed twice daily at 10 am and 3 pm. The price of gold is usually measured in US dollars per troy ounce. Gold prices have been increasing steadily for 10 consecutive years, underpinned by strong and diverse fundamentals. Table 5 reveals the price of gold from 2000 to 2016.

Table 5: Gold Price in India

Year	**Price (per 8 Grams) Rs.**	**Year**	**Price (per 8 Grams) Rs.**
2000	2,208	2009	12,504
2001	2,224	2010	15,368
2002	2,278	2011	21,120
2003	2,907	2012	23,896
2004	3,504	2013	23,572
2005	4,136	2014	19,744
2007	7,928	2015	21,520
2008	8,984	2016	26,888

Source: www.bullion-rates.com

Gold price in India at the end of 2001 was Rs. 2,224 per 8 grams. From then until 2015 the gold price in India has increased by 867.63 per cent to 21,520 per 8 grams.

Gold Demand in India

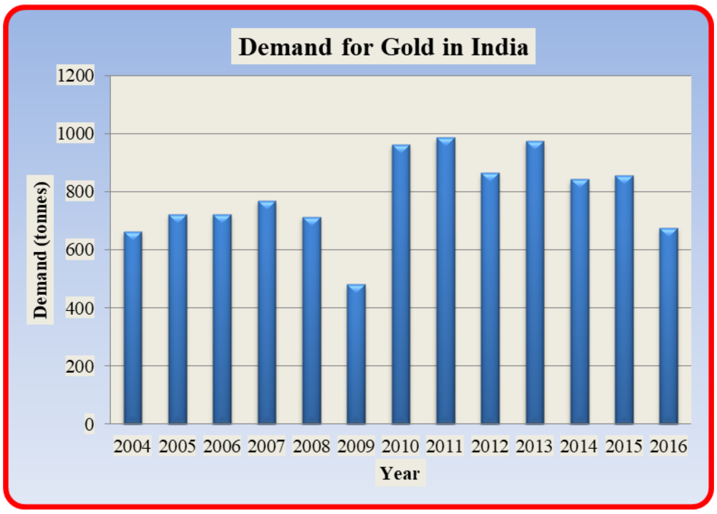
Gold is a rare metal. Today there are 1,65,000 metric tonnes of gold in existence above ground. If every single ounce of this gold were placed next to each other, the resulting cube of pure gold would only measure 20 meters in any direction. The demand for this precious and finite natural commodity occurs in many geographic and sectors. Around 75 per cent of today’s gold becomes jewellery, where India and china with their expanding power are at the forefront of consumption Table 6 depicts the demand for gold in India from 2004 to 2016.

Table 6: Demand for Gold in India

Year	Demand (tonnes)
2004	663.00
2005	722.00
2006	722.00
2007	769.00
2008	713.00
2009	480.00
2010	963.10
2011	986.30
2012	864.20
2013	975.00
2014	843.00
2015	857.20
2016	675.50

Source: www.livemint.com

Figure 4: Demand for Gold in India



The government of India enacted the gold control act in 1962, when there was a sharp decrease in foreign exchange reserves due to Indo-China war. The legislation made the private ownership of gold bullion illegal and created a huge black market for the yellow metal. The gold control act was repealed in 1990 after Indian government needed to sell 40 tonnes of the country's gold reserves to deal with the foreign exchange problems.

Following the repeal of the Gold Control Act the demand for gold in India began to rise sharply. Indian gold demand immediately increased by 75 per cent to 455 tonnes in the year 1993 after the gold control act was terminated. The total demand for gold in India during 2004 was 663 tonnes. In this year, gold jewellery demand increased by 8 per cent to 518 tonnes. In 2005, the total annual Indian consumer demand for gold was 722 tonnes. During this year, jewellery demand increased by 13.8 per cent to 589 tonnes. Demand increased because of a strong economy, the positive impact on rural incomes of high agricultural prices for key crops and a good winter harvest, and an increase in the number of dealers and retail outlets.

In 2008, demand for gold was 713 tonnes. Total gold demand in 2009 decreased to 480 tonnes, due to worldwide financial recession. Gold jewellery demand in 2009 was 303 tonnes. In this year, India accounted for 15 per cent of the global consumer demand for gold. The total gold demand by Indian consumers in 2010 was 963 tonnes valuing $38 billion. Demand for gold jewellery in 2010 was 746 tonnes, which was 75 per cent of Indians total gold demand. Indians bought 540 tonnes of gold in first half of 2011, up 21 per cent from the same period last year. The demand for gold during 2011, 2012 was 986.3 tonnes, and 864.2 tonnes respectively. The demand for gold in 2012 showed a downward trend due to high and volatile gold price. Demand for gold jewellery increased during the year 2014 inspite of the restrictions imposed by the government on gold imports. Thus consumption of gold jewellery increased by 8 per cent during this year and this increase was mainly due to 6.4 per cent reduction in the rupee gold price. The demand for gold in 2015 was 857.2 tonne and decreased to 675.5 tonne in 2016. According toWorld Gold Council, gold demand declined in 2016 due to challenges like jewelers strike, PAN card and demonetization move.

Key Success Factors and Risk Factors of the Jewellery Sector

Key success factors of the jewellery sector are as follows

- Movement from unbranded to branded jewellery and increase in fashion dictated buying
- Hallmarking and certification
- Increased use of technology
- Availability of labour at competitive wages
- Transformation from family owned businesses to professionally managed business

Traditionally in India, majority of the jewellery businesses are family owned. Generally, people in India buy jewellery from their family jewellers. To overcome competition and to prosper, family owned businesses have started to transform themselves into professionally managed business.

Key risk factor of the jewellery sector is limited standardization. In India, jewellery consumption is primarily of gold. The bulk of the Indian jewellery buying is still rooted in tradition, and jewellery is sold in traditional designs. Gold jewellery is also bought as an investment. In the present system of gold jewellery, the purity may or may not be standard and since hallmarking is not compulsory, cheating on karatage is widespread.

3. CONCLUSION

In conclusion, our study on cost management analysis in the Indian jewellery industry reveals a complex interplay of historical, cultural, and economic factors that shape the industry's dynamics. The deep-rooted cultural significance of jewellery in India, combined with the evolving consumer preferences for unique and contemporary designs, underscores the necessity for efficient cost management strategies. Our research indicates that the industry's growth is driven by factors such as rising purchasing power, lifestyle changes, hallmarking and certification, skilled artisans, and effective marketing. By examining these elements, we have identified key areas where cost management can significantly enhance profitability and competitive advantage.

Our detailed analysis of cost components, including raw materials, labor, overheads, and distribution costs, highlights the critical importance of managing these elements effectively. The case studies of representative jewellery companies in India provide valuable insights into the best practices and innovative approaches adopted by successful businesses. Comparative analysis with global benchmarks further emphasizes the potential for Indian jewellery companies to improve their cost efficiency. The statistical analysis underscores the impact of different cost management strategies on profitability, offering a data-driven foundation for our recommendations.

Based on our findings, we recommend a multifaceted approach to cost management that includes optimizing supply chain processes, investing in technology for better inventory and production management, and enhancing marketing strategies to align with consumer trends. Embracing these strategies can help jewellery companies in India navigate the challenges posed by fluctuating gold prices and intense competition. By focusing on these areas, the industry can not only sustain its growth but also strengthen its position in both domestic and international markets. Ultimately, effective cost management will enable the Indian jewellery industry to continue its legacy of excellence while adapting to the demands of a modern, globalized economy.

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