The Optical Industry in India
Market Research
INDIA

Il settore dell’ottica

L’Istituto nazionale per il Commercio Estero, con la propria rete di Uffici nel mondo e con le attività di promozione e di assistenza, costituisce un osservatorio sui mercati internazionali al servizio delle imprese italiane.

La presente pubblicazione rientra nel programma editoriale dell’Istituto - collana “PROFILI/PRODOTTO/MERCATO” - ed è stata realizzata nell’ambito del Programma Promozionale finanziato dal Ministero del Commercio Internazionale - a cura dell’Ufficio ICE di New Delhi .

Il programma editoriale è curato dall’Area Prodotti Informativi – Editoria Elettronica.

Giugno 2008

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1. **Introduction**

Italian Trade Commission (ICE), Trade Promotion Section of the Italian Embassy, New Delhi, has appointed Ace Global Private Limited, a consultancy company based in New Delhi, to undertake the Market Survey on India’s Opticals sector, focusing on ophthalmic lenses and related products like sunglasses, spectacle frames etc.

The main objective of the study is to identify potential business opportunities for Italian companies in the sector based on insights into the Indian Optical industry, especially with regard to the current state of the sector in India, principal factors driving the growth of the market, regulatory and other influences and external trade trends etc.

This report summarizes the key findings of the study, which was based on extensive secondary research and primary research covering important manufacturers, importers/distributors and retailers.

2. **India- Brief Economic Scenario**

India is a large country with total area of 3.28 million sq. km., sharing land border with six countries, and a long coastline of 7,000 km. The country is a federation of 29 states and 6 union territories (administrative units). India’s total population is 1.13 billion (Italy 59.206 million), growing at 1.4% per annum. There are 5 major religions and the overall literacy level is 59.5%. There are 14 officially recognized languages. Hindi is the most used language. English is widely used in business as well as in everyday life.

**Economic Trends:** India is among the fastest-growing economies in the world, with close to 8% annual growth since 2002, and expected to be sustained for the next 5 years as well. Inflation rate remained below 5% between 2001 to 2007, but has since increased, touching 8.75% in May 2008. The business regulatory environment is fairly open, and follows free-market competition principles. All quantitative restrictions on trade were removed in 2001, except for a few highly sensitive goods. Trade as a % of GDP has risen from 13% in 1991 to nearly 30.2% in 2005-06. The total cumulative foreign direct investment (FDI) received into India up to March 2007 was US$ 54.63 billion, of which Italy’s share is about 1.2%.

The monetary unit of India is Indian Rupee (1 Indian Rupee = 100 paise). The exchange rate of Indian Rupee is Euro 1 = Rs. 63.20 and US$ 1 = Rs. 40.45 (March 2008 - Reserve Bank of India).
Demographics: India is a unique market on account of its diversity in age, income, and urban-rural demographics. Nearly 58 million households, comprising 32.3% of India’s dwelling units, live in urban areas. Nearly 38% of urban households are in middle and higher income strata, and only 14% of rural households have similar income levels.

Income Classification: Even though the population is more than 1.1 billion, the real consuming class of 300 million people outnumbers several of the world’s large markets in terms of market potential. Of these, around 150 million people (2 million very rich and 30 million rich households) represent the consuming potential, particularly for lifestyle goods and services.

- There are close to 80,000 high net worth Individuals in India, with saving and assets exceeding US$1 million.
- At least 50,000 households buy premium cars every year (priced at US$30,000 and above).
- The market for luxury goods is estimated to be Rs 100 billion, with over 2 million Indians estimated to be engaging in some luxury purchase or the other each year.

Main Cities: Mumbai, Kolkata, Delhi, Hyderabad and Chennai are the most populated and wealthiest cities, closely followed by Bangalore, Ahmedabad, Pune, Vadodara and Kanpur. The top seven cities Mumbai, Delhi, Chennai, Kolkata, Hyderabad, Ahmedabad and Bangalore, together have over 6 million homes falling in the upper socio-economic strata.

Age-group distribution: India is a very young nation with 85% of its population below the age of 45, and 55% of its people below 25 years of age. Young adults, the group between 20 and 35 years, represent nearly 25% of the consumer base in the country, and drive consumer and lifestyle trends.

Health & Vision Care indicators:
- Life expectancy at birth Male/Female (years) : 61.0/63.0
- Total health expenditure per capita (2003): US$82 (4.8% of GDP)
- 360 million Indians above the age of 35 need near vision correction [for reading].
- 386 million Indians require spectacles every year (NOA)
- Average rate of spectacles replacement 3 years
- Due to the geographical location of India and global warming very large number of people require protection from harmful UV rays of the sun.

3. Overview of Global Optical Industry

3.1 Overview and Trends
The demand is driven by demographics, fashion, and changing healthcare practices. Aging population is increasing the demand for eye exams and glasses.
Eye care has evolved from age-related vision disorders to cosmetic concerns. Spectacles are nowadays considered as personality enhancers and a fashion accessory.

Changing lifestyles and activities that affect the eyes, have led to increasing use of colored contacts, tinted spectacle lens, polycarbonate lenses with anti glare and photochromatic lenses. This has been further aided by introduction of daily, weekly, and monthly disposable contact lenses.

3.2 Market Size
Healthcare expenditure on ophthalmic products, is largely concentrated in the United States and Western Europe. USA is the biggest market for the optical industry (over $28 billion in 2006) but already very well penetrated. Companies have to explore new markets, specially the Asian market, to increase their revenues and market share.

**World Market for Optical Products-2007**

<table>
<thead>
<tr>
<th>Category</th>
<th>$ Billion</th>
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<tbody>
<tr>
<td>IOLs</td>
<td>0.83</td>
</tr>
<tr>
<td>Lasik</td>
<td>1.3</td>
</tr>
<tr>
<td>Spectacle Lenses &amp; Frames</td>
<td>24.0</td>
</tr>
<tr>
<td>Contact Lenses</td>
<td>5</td>
</tr>
<tr>
<td>Sunglasses</td>
<td>4.9</td>
</tr>
<tr>
<td>Lens Cleaning Solutions etc.</td>
<td>1.6</td>
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</tbody>
</table>

4. Optical Sector in India

The Indian market for optical products - including ophthalmic, fashion and contact lens segments - is estimated to be about US$ 1.13 billion.

**India: Optical Sector - Market Segments 2007, by Value share**

INDIA: Il settore dell’ottica
4.1 Principal Market Segments
Refractive Correction - IOLs & Lasik
Cataract surgery in India has seen exponential growth in the past decade with almost 3-4 million new patients every year. From an estimated 0.5 million cataract surgeries in 1981-1982, the figure has increased to 4.8 million in 2006. Of 4.8 million cataract procedures, roughly 60 per cent or 2.8 million were performed in the charitable sector. The remaining 40 per cent or 2.0 million constituted the paid sector.

In 2007, the prescription eyewear market in India was estimated to be worth Rs 23 billion. India is predominately a glass lenses market (87% of total market) with sales of approximately 115 million pieces per year.

This segment is largely dominated by the unorganized sector, which accounted for 95% of the prescription eyewear business.
**Sunglasses**

The sunglasses market, growing steadily in the last five years, is further segmented by price. The mid-priced segment (Rs. 700 to Rs. 2000) accounts for almost half of the market, whereas high end and premium sunglasses account for 20% and 10% of the market. The high and premium segments are growing faster than the rate of overall market growth.

**Contact Lenses**

The Indian contact lens market recorded Rs. 2 billion in sales in 2007, growing at 30 per cent - a healthy rate compared to less developed markets around the world. However, the market penetration of contact lens remains extremely low (just 5%) in India, compared to Singapore (22%), Hong Kong (25%) and USA (30%).
Spectacle Frames
The frames market is largely unorganized, with only 5% share of the organized segment. India has always been import dependent in the eyeglasses sector, for hinges, ophthalmic lenses as well as for acetate frames, as these products could not be economically made in India based on internal demand alone. Chinese products have captured a major share (70-80 percent) of frames market.

4.2 Market Characteristics
Opticians are the key influencers in consumers’ decision on selection of eye wear including contact lenses, which are not prescription products, and can be sold through the OTC route. Companies engage market research agencies for preparing databases of potential consumers in select cities (such as Ogilvy One for Ciba Vision and Carvodraft for Bausch & Lomb).

In a country where the car market is growing exponentially, with consumers wanting better cars, not cheaper cars, where nearly everyone has his own mobile phone, it is no longer right to say that price is the only consideration and not quality, comfort and wearing satisfaction.

Even the small towns and villages have their own share of beauty parlors. Young boys and girls in these places also want to look good and presentable. Their average monthly expense in these beauty parlors would easily exceed Rs 300 to Rs 400.

Young, urban, affluent customers hold the key. Over the years, the age profile of contact lens users has come down. Currently, the average user tries on contact lens for the first time around 15 years of age - when s/he enters 11th grade or junior college. Even three years ago, a first-time buyer of contact lens was a little over 20 years - about to start his /her first job.
The teenaged user needs parents' approval (and funding), but there’s a whole new set of IT/BPO consumers that is now flush with funds and to whom appearance is critical.

4.3 Leading Players
Almost all leading international players (Luxottica, Essilor, Carl Zeiss, Bausch & Lomb, Johnson & Johnson, to name a few) have a strong presence in the Indian market, through own subsidiaries, joint ventures, marketing tie-ups etc. Though international brands of eye care products have been marketed in India for many decades, their production in India has taken of mostly in the last 10-15 years.

Several indigenous companies (GKB Rx Lens Pvt. Ltd., Titan Industries, Auro Lab etc.) have also emerged as strong players in the Indian market in the recent years. Many of these companies have collaborations with global leaders in the
optical industry, and have set up state-of-art manufacturing facilities to not only cater to the domestic market but also exporting in big way.

4.4 Italian Presence

Italian eyewear industry viewed as undisputed world leader, especially in the top/premium segment of the market. As per official statistics, share of Italy in imports into India is still very small, being US$ 4.27 million (less than 2% of total imports), except for low cost, low technology products like frames and mountings for spectacles. Sunglasses account for 83% of the imports from Italy. However, the above statistics may not be truly representative, as some of the Italian brands may be imported into India from production locations outside Italy, and also because of the major existence of the parallel market which is not reported in the official statistics.

Luxottica entered India consequent to its worldwide acquisition of the sunglass business of Bausch & Lomb in June 1999 and acquired Ray-Ban manufacturing plant at Bhiwadi in Rajasthan. Other Italian companies include Safilo, Oakley etc.

4.5 Production Scenario

IOLs: Market leaders in IOLs, namely Alcon, Bausch & Lomb, Advanced Medical Optics (AMO), do not have local manufacturing facilities in India. Aurolab (capacity of 700,000 IOLs a year) and Biotech Vision Care (capacity of over 1.5 million IOLs per year), Appasamy Associates and Eagle Optics are the leading producers.

Spectacle Lenses: Production is mainly in the unorganized sector. GKB Rx Lens Pvt Ltd is the leading producer of glass ophthalmic lenses (capacity of 5000 prescription lenses per day). Carl Zeiss set up its first manufacturing facility in Goa, and has a joint venture 'Zeiss Brand Lab' with a manufacturing capacity of 1,000 prescriptions a day. Essilor set up a facility in Bangalore in 1998 with a $15-million-plus investment for Plastic lenses.

Contact Lenses: In 1992, Bausch & Lomb (now owned by Luxottica) set up an $11 million plant in India to make contact lenses, lens-care products and metal eyeglass frames for the Indian market. Titan is considering introducing its own contact lenses, though it currently sources its requirements from Bausch & Lomb, Johnson & Johnson and Silklens.

Sunglasses: Luxottica acquired the Ray-Ban manufacturing plant at Bhiwadi in Rajasthan, India. GKB Rx Lens Pvt. Ltd. launched a contemporary range of designer sunglasses in the Indian market in March 2004 through sourcing arrangements with design and production houses in Italy and Germany. Titan, one of the leading Indian companies in the sunglasses segment, has set up manufacturing units abroad though design facilities are located in India.
Spectacle Frames: India’s largest concentration of spectacle frame-manufacturers is in the state of Gujarat, manufacturing 20,000 frames daily. Most of the Indian manufacturers are small and use same concept and technology, as foreign companies (sheet cutting, ring forming, pressing, screw forming, hinge manufacture and assembling) but can not afford hi-tech machines. They use local machines costing Euro 5000 to 7000, designed using reverse engineering, against foreign machines costing over Euro 1 million.

4.6  Dependence on Imports

Import of optical products into India has been growing steadily and has doubled from US$ 32.16 million in 2003-04 to US$ 65.36 million in 2006-07. However, share of Italy is very small, being less than 2%, except for low cost, low technology products like frames and mountings for spectacles. Sunglasses account for 83% of the imports from Italy.

Even as leading players are setting up base in the country, all these companies still import lenses from Europe or from their production facilities in low-cost countries, such as Hong Kong, China and South Korea. Indian companies also import raw products and items for finishing and assembly, especially from Hong Kong and China. Top Indian sunglass brands Fastrack and Vintage also import sunglasses from the China. Hong Kong is the most popular source for import of spectacle frames. Medium sized Italian brands for eyeglasses will also find the Indian market opportunity attractive in the second-tier markets outside the large metro cities, although they will be volume markets.

There is also a huge parallel market in unbranded imported eyewear. This includes products that are mainly imported from the China, and are available in the unorganized market at very low prices ranging from USD 2 to USD 10. These are mainly ophthalmic spectacles and usually feature low-quality plastic lenses. A large variety of unbranded sunglasses are also available in this segment.

5.  Structure of Trade & Distribution

5.1  Types of Distribution Structures

The optical sector has a multi-tiered structure consisting of import agents, distributors / wholesalers, dealers and retail outlets, depending on the size of the market in consideration. Larger cities and metros have up to four levels in the distribution network till the final point of sale. Building an effective distribution channel is a key pre-requisite for a new entrant in the business.

Of late, new distribution models, especially multilevel marketing, direct selling and on-line marketing are catching up in India.
Import Agents have an important role in distribution and promotion of the products, besides taking care of the compliance with regulatory requirements (handling customs clearance procedures, appointment of distributors and retailers; pricing decisions; training of sales staff, promotion campaigns, etc.), as the sector is largely imports dependent.

Distributors / Wholesalers are the principal link between retail outlets and the brand within the city/region. Most distributors have their own godowns / storage space, with varying capacity depending upon the volume of business as well as geographical area of the territory covered. Most distributors also maintain their own showrooms for display of products.

Retail sector is fragmented (more than 3.5 million outlets) and outlets are mostly stand alone (almost 80% of total), small shops in Local Shopping Centres, often manned by the owner and 1 or 2 assistants. Organised retail accounts for less than 4% of total retail in India but is likely to reach 35% by 2015, with over 7 million sq. m. of space under construction.

Retailers of optical products generally receive supplies from distributors or sub-distributors appointed by companies. However as a means of direct contact with the outlets, companies also depute their own sales persons to book orders from retail outlets, which are then supplied by distributors. Retailers often carry more than one brand in each product category, except in the case of single brand outlets (about 7% of all retail outlets for optical products).

Most retailers carry a wide range and multiple brands of products (frames, lenses, contact lenses, cleaning solution etc.) with average stock of 75 to 100 units. The retailers have reported a positive growth outlook in the coming years, projecting a 30%+ growth in business for frames, sunglass and contact lenses.

The frequency of supply ranges from once to twice a month depending upon the product and size of the retail outlet. The retailers expect a credit against supplies, which varies widely from one week to 6 months.

5.2 Trade Commercial Terms
The overall trade margins range from 25% to 35%, shared by all trade channel partners, depending on the segment in consideration. The total mark-up at different levels up to the retailer is between 12 – 20%. However, retailers’ margins can be as high as 70%, depending on the brands, especially in the premium/super premium segments.

The most popular promotional schemes are in the form of free gifts (leather bags, wrist watches), cash discounts, free trial offers for first time users.
6. **Regulatory Environment**

6.1 **Investment and Trade Regulations**

- Foreign direct investment (FDI) is allowed (even up to 100% foreign ownership) in the manufacture of all optical products. The approval is automatic and requires only a filing of the investment details with the Reserve Bank of India.
- FDI in Retail Trade is presently allowed only for Single Brand product retailing, and FDI is permitted only up to 51%. However, foreign investment up to 100% is permitted for Wholesale/ Cash & Carry trading, and trading for exports.
- All foreign companies having existing previous joint venture/technology transfer/royalty agreements, require prior approval before setting another venture in the same field.

All foreign investments are **fully reparable** for both profit as well as principal values, subject to payment of applicable Indian taxes and obtaining due clearances from the Reserve Bank of India.

**Technology Agreements**

- Foreign technology agreements, including licensing rights, lump sum payments and royalty payments are allowed on an automatic approval basis provided the value of the lump sum does not exceed US$ 2 million, royalties do not exceed 5% of net domestic sales or 8% of FOB exports, and the total value of payments over a seven- year production period is below 8% of the total revenues of the company receiving the know how.
- Foreign companies are also entitled to receive royalties on account of licensing fee, brand name rights, etc., up to 1% of net sales from their Indian subsidiaries or ventures even without a technology transfer agreement, on an automatic approval basis.

**Export Fiscal Incentives and Concessions**

India offers an attractive scheme of incentives on exports, especially through its Export Oriented Unit (EOU) Schemes. The most important provisions concerning EOUs are exemption of import duty on all capital goods, raw materials and consumables, sales in the domestic market (subject to value addition requirements) at a lower customs duty, exemption from income tax on profits until April 2010.

6.2 **Taxes and Duties**

- Import duties: Imports of all optical products attract Import Duty @ 34.13%.
- Corporate Income Tax for companies incorporated in India: 33.66% including surcharge and cess.
- Dividend Distribution Tax: 14.025% including surcharge and cess.
- Value Added Tax: This is a turnover tax applying on sales, and varies state to state; for example 12.5% in Delhi.
6.3 Labeling and Marking Rules
The Labeling and Marking Rules stipulate that the following must be prominently on the 'principle display panel' of the packages:
- Maximum retail sale price for the ultimate consumer, inclusive of all taxes, freight, transport charges, commission payable to dealers, and all charges towards advertising, delivery, packing, forwarding etc. (in Indian Rupees)
- Generic name of product
- Month and year in which manufactured or packed or imported
- Importer name and address
- Quantity in standard units
The above labeling requirements are applicable only on imports of those pre-packaged goods which are intended for retail sale in India.

6.4 Documents required for custom clearance in India
- Shipper’s Invoice
- Packing List
- House Air way Bill (HAWB) – Original
- Master Air way Bill (MAWB) – Copy
- Airline D.O.
- Manifest
- Letter addressed to Asstt. Commissioner of Customs (on company letter head) authorizing the Shipping Agent to clear the goods on behalf of the shipper (exporter) / importer in India . - if applicable
- Technical Write-Up on the items (product catalogues, etc.)
- Copy of Importer Exporter Code (IE) number of the consignee (importer) in India

7. Opportunities for Italian Companies in India

7.1 India in general

Rising Incomes fuelling Demand for Branded / Imported Lifestyle products:
India's increasing new middle income earners (new-mids) in urban centres offer foreign companies unprecedented growth opportunities. According to a McKinsey study, there are 1.2 million affluent households, expected to reach 2.5 million households by 2015. In addition there are 40 million middle-income households earning between US$20,000 to $45,000 which holds the key to India's retailing boom.

Accordingly, India is fast becoming a large market even for luxury goods and services, based on:
- Ten-fold rise in India’s middle class: from 50 million to 580 million; with comfortable living standards.
The upper middle class expected to swell from 25 million people to over 130 million by 2025, and
• 24 million upper crest Indians (income > Rs 1mn per year, or $ 117,000 PPP) with global lifestyles.

In addition to the rising income levels, the share of basic requirements in household spending is expected to progressively reduce, while that of lifestyle products and services (personal products, leisure, healthcare) is increasing.

**Booming Retail sector:** The retail sector is experiencing an exponential growth, with consumer expectations shifting from merely purchasing goods to an enhanced shopping experience.

**Favourable Government policies:** Liberal foreign investment policy and gradual opening up of retail sector to foreign investors, makes India an attractive destination for Italian companies.

The decision by the government of India in 2006, to allow foreign direct investment in single-brand retailing marked a significant watershed, giving foreign brands a direct route to the Indian consumers.

Substantial reduction in import tariffs over the years, has also fuelled the demand for imported lifestyle goods among the higher income groups.

Italian companies now have various options for entry to the Indian market – manufacturing (joint venture or on their own), technology licensing, franchising, branded retailing etc.

### 7.2 Optical Sector

**Market scenario:** Considering that India has the world’s second largest population, of which nearly one-third require some form of eye-sight correction, India represents a huge market opportunity in the optical sector. However, the market is extremely fragmented, complex, price sensitive, diverse and distribution driven.

Most consumers are ignorant about quality, brands, country of origin of products etc., and are largely guided by the opticians and of course the price. Hence, it is very important to educate and train the trade.

Therefore, Italian companies need to be conscious of the importance of tailoring the business model to local conditions. McKinsey offers four key guidelines to setting up a successful business in India, which are quite apt for the optical sector as well.

- Offering “value at the right price,” with affordability the main component.
- Educating the consumer, through effective marketing campaigns.
- Designing to cost, as the challenge is to make a profit at prices that Indian consumers can afford.
- Getting the distribution right. No matter what opportunities exist to change the retail scene, McKinsey stresses that “the traditional network of local retailers will remain important for years, even if modern retailing continues to grow at the current rate of 25 percent a year.”

**Huge Untapped Potential:** In a country of 1 billion plus people, the total market for optical products has only reached US$ 1 billion, which is miniscule as compared to the potential. The average market growth of 20% per year in the last few years is likely to be sustained.

According to eye specialists almost 20-30% of the Indian population, i.e. 200 to 300 million people, requires visual correction. However, only a fraction these people are presently using proper optical products due to lack of awareness as well as affordability issues. Nevertheless this points to huge untapped potential in the Indian market.

Further, branded eyewear has very limited penetration in the Indian market at present, but it is increasing.

**Key market characteristics**
- India is a highly price sensitive market though demand for premium/branded goods is rapidly increasing, at a faster rate vis-à-vis the overall market.
- Mid price segment is most promising, with large volumes and decent margins
- Low end segment has high inspirational value and would like to move up the value chain
- Medium and small sized cities are fast emerging has high potential markets for lifestyle products

Market segmentation and positioning is important as the expectations and paying capacities differ across consumer segments in India. Therefore, new entrants should preferably offer different products/brands for different segments giving price value equation, using both exclusive and multi brand outlets.

**Favourable Perception of Italian Optical Products**
History and parentage is an important reinfo rcer for new international brands being introduced in India. Success of European brands in India is to an extent because traditionally, Europe is considered the face of fashion. Retailers, importers and distributors, rate Italian products as superior compared to other imported products and Indian products. Even among the ophthalmologists, the perception about Italian optical products is better or comparable to other imported products.

It is important to highlight here that retailers and ophthalmologists play an important and influential role in the consumers’ decision in selection of products
and the brand. Therefore, their positive perception about Italian products, inspite of overall market share being low at present, will provide a head start for Italian companies entering the Indian market.

**Market Segments:** Currently, spectacle lenses and sunglasses offer the maximum potential, both in terms of size and growth rates. In both the segments, even though the upper end may be growing faster, it is miniscule compared to mid and low segments, which have huge unmet demand and aspiration levels. It would be crucial to position the product properly.

There is only limited production of contact lenses in India, and only three international brands - Bausch & Lomb, J&J and Ciba – are being marketed. Also the market at present is small, but growing fast as the prices come down. There is scope for a mid range brand/ product that could be a window of opportunity for Italian companies.

**Partnerships:** Opportunity for Italian companies to partner with the existing small and medium sized who typically have limited resources for expanding/upgrading their operations, but understand the Indian market dynamics.

Going by the model successfully used by other international brands, Italian companies planning to enter the Indian market should consider tying up with an Indian Importer-Distributor, for handling all import related formalities, and managing the logistics, retail network and promotion.

Another emerging option is to tie-up with major retail chains, to have an exclusive or preferential presence across their retail outlets. While this route promises scale and reach, the margins tend to be lower.

**Promotion:** Local adaptation needs to manifest in communications, language, promotions, selection of brand ambassadors, and in the product attributes themselves. The positive perceptions about Italian optical products should be capitalized in the promotions.

**Roll out:** Mumbai is considered to be the most interesting city to launch premium end products, being the commercial capital of India, with the largest concentration of business families and overall high disposable incomes. Mumbai is also the fashion and glamour capital of India, and home to Bollywood, the Indian film industry.

In addition to Mumbai, Delhi NCR, Chennai, Hyderabad and Bangalore are also important markets, given the large corporate working class and also a predisposition to indulgence in personal care and fashion. Therefore, while a new player should begin with launch in one city, it should plan to expand its market coverage to other important cities within the first two-three years of launch.