

"A man is  
great by  
deeds, not by  
birth"  
-Chanakya

Welcome to IIMK



INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE



Working Paper

**IIMK/WPS/580/MM/2023/01**

May 2023

**From “Making Charges” to “Crafting Premium”:  
Determining the Feasibility of a Novel Strategy for Marketing Gold Jewelry**

Priya Narayanan<sup>1</sup>

©

**All rights belong to their respective authors.**

**Please contact the corresponding authors for any queries.**

<sup>1</sup>Assistant Professor, Marketing Management Area, Indian Institute of Management Kozhikode, IIMK Campus PO, Kunnamangalam, Kozhikode, Kerala 673 570, India; Email - npriya@iimk.ac.in, Phone Number - 0495-2809653

# **From “Making Charges” to “Crafting Premium”: Determining the Feasibility of a Novel Strategy for Marketing Gold Jewelry**

## **Working Paper**

Priya Narayanan | IIM Kozhikode | npriya@iimk.ac.in

### **Abstract**

Gold jewelry is ubiquitous in India and is a common form of adornment and savings in the country. Gold jewelry is typically priced based on the quantity of gold in the product with additional “making charges” as a percentage of the quantity of gold. This pricing method is combined with discounts on making charges. This approach to pricing results in relatively low focus on design and aesthetics during purchase. In this research, we question current practices related to making charges and propose a novel strategy to sell gold jewelry by changing consumer perception of making charges. We suggest that, for consumers who intend to use gold for adornment, making charges could be presented as a “crafting premium” which forms an indicator of the value addition carried out on the gold. For customers who buy gold as a financial asset, low making charges will continue to be attractive, but this segment of customers is declining gradually as avenues for investment in gold bars and paper assets linked to gold become more popular.

### **Acknowledgments**

This paper has benefited from comments by participants at the 6th IGPC-IIMA Annual Gold & Gold Markets Conference 2023.

Gold jewelry is ubiquitous in India and is a common form of adornment and savings in the country. The demand for gold jewelry in India stood at 611 tonnes in 2021, which amounted to Rs. 2.6 lakh crore (Asokan 2022). The gems and jewelry industry, including exports, contributes about 7% of India's GDP (IBEF 2022). Given the importance of the gold jewelry industry and the prevalent extent of competition, marketing and advertising becomes critical to draw customers and to build a brand image. Leading branded jewelers spend several crores on advertising, with leading players spending Rs. 100-200 crore (Goldhub 2022).

However, despite the differences among companies in terms of scale and strategy, gold jewelry retailers follow two main approaches while selling to customers, depending on the nature of the product: heavy and higher karat gold are sold primarily based on the quantity of gold contained in the product, expressed in grams. To the price of gold, an additional quantity known as “making charges”, usually ranging between 6% and 25% of the price of gold in the product, is imposed (Motiani 2020). The purchase does take into consideration the design, but the stronger emphasis is on the amount of gold that changes hands. Unlike this, relatively lighter and lower karat jewelry, often fashion pieces, are sold at a fixed price decided by the retailer. In this case, the focus is only on design and aesthetics but not on the sheer quantity of gold involved.

An important observation in the retailing of gold jewelry, thus, is the role of the making charges which works as a premium on top of the price of gold. Across jewelers, there is a popular practice of providing discounts on the making charges as the amount of making charges is highly variable and is opaque to the consumer (Appendix A). In this way, variation in making charges is used for competitive differentiation and as a way of encouraging sales (Kaur 2020). The discounting of making charges has been a longstanding method and seemingly works, although systematic evidence for the same does not exist.

In this research, we question current practices related to making charges – jewelers competing on making charges and drawing customers through discounts on making charges – and propose a novel strategy to sell gold jewelry by changing consumer perception of making charges. We suggest that, for consumers who are more interested in the aesthetics of gold jewelry and intend to use it for adornment, it would be possible to present making charges as a “crafting premium” which forms an indicator of the value addition carried out on the gold. This would make reasonably high making charges acceptable, without necessitating jeweler discounts on making charges. For customer who buy gold as a financial asset, low making charges will continue to be attractive, but purchase of physical gold for investment is likely to decline gradually as avenues for investment in paper assets linked to gold become more popular (Dhawan 2022).

To this end, we first examine jeweler and consumer perceptions associated with making charges, both in terms of its necessity and in terms of possible changes to perception, through a series of interviews with both sets of stakeholders, while also studying the willingness to adopt such an approach. We then test the feasibility of adopting such an innovation through a set of experiments to determine the effectiveness and acceptability of the proposed approach to jewelry pricing.

Presenting making charges to the consumer as a “crafting premium” could reduce the prevailing customer tendency to focus on prices while buying a hedonic product based on design and aesthetics. This approach could be a step forward for the gold jewelry industry in moving towards a category that can command a premium. Additionally, the crafting premium elevates the role of the craftspeople who have traditionally worked in low quality settings and form the backbone of the gold jewelry industry, despite the advent of machines (Varkkey, Jha, and Ansari 2022). Overall, if determined to be feasible and, hence, adopted by gold jewelers, the proposed approach has the potential to become a gamechanger for the industry

by enabling greater creation and capture of value that other industries such as diamonds and luxury products have achieved, while raising the quality of life for *karigars* and craftspeople.

This research will contribute to literature on marketing strategy, particularly with respect to pricing, as well as the impact of price cues on consumer choices. Price can act as a signal for product quality and crafted products tend to command a price premium in several product categories. However, price can be perceived as indicating a value addition or an unfair added cost, with the latter being subject to discounting. We suggest that the gold jewelry industry in India can benefit through viewing making charges as value addition rather than merely a burden to be borne by the jeweler and/or consumer.

### **Theoretical background**

Much research in pricing has shown a consistent price-quality relationship such that the higher the price, the greater is the quality of the product (Kardes et al. 2004). This would imply that price discounting could have a negative impact on perceived quality. At the same time, price discounts and price promotions play an important role in reducing the pain of paying (Prelec and Loewenstein 1998) and draw customers. Discounting is even more important in a highly competitive market where different market players follow the same strategy and have similar strengths.

However, in a scenario where discounting has become standard industry practice, as in the case of making charges in gold jewelry in India, it could become difficult for a particular company to avoid or reduce discounts. In order to tackle this issue, we consider a case where the perception of the price itself is changed, so that while the pain of payment continues to exist, the price is paid for a value addition rather than an unavoidable difficulty. When the feature for which the price is paid becomes hedonic rather than utilitarian, consumers revert to the price-quality relationship and are more willing to pay the full price

(Choi, Madhavaram, and Park 2020). This leaves scope for brand-based competition that does not depend solely on price or customer habit, and provide scope for differentiators such as cause marketing (Andrews et al. 2014).

### **Gold jewelry marketing in India**

India is estimated to have about 500,000 jewelers, with about 86,000 jewelers registered for taxation purposes (Goldhub 2022). In recent times, the gold jewelry industry has witnessed a move from a highly fragmented and unorganized market towards consolidation: branded chain stores now constitute about 40% of the retail outlets in the country (Livemint 2022).

The gold jewelry industry is highly product-focused and pricing is an important aspect of gold sales and purchase; the role of design and aesthetics is relatively low. The major dimension of competition among gold jewelers is price, of which making charges provides the only scope for variation as the remaining components are the price of gold per se and the taxes. As a result, gold jewelers tend to offer discounts on making charges as a means to draw customers. Despite the well-known notion that discounts can erode the brand image, the practice is continues since almost all jewelers engage in this practice. Appendix A shows examples of leading offline and online branded jewelers highlighting discounts on making charges. Together with discounting, making charges are usually opaque to the consumer and provide space for avoidable bargaining.

Besides the above, anecdotal observation of the gold jewelry market suggests two types of gold purchases for different purposes. Heavy and higher karat gold is bought and sold mainly based on the quantity of gold contained in the product, and is often considered an investment in addition to adornment. For such jewelry, making charges are levied on the price of gold, and this often ranges between 6% and 25% of the price of gold involved

(Motiani 2020). A different purpose of gold jewelry is adornment per se, and such jewelry usually refers to relatively lighter and lower karat jewelry, bought mainly on aesthetics and design, where making charges are not very relevant.

Another important aspect of the gold jewelry value chain is the role of craftspeople who generally work in poor quality settings and are critical to the working of the gold jewelry industry, even as the presence of machines in the manufacturing of gold jewelry steadily increase (Varkkey et al. 2022). Based on the above observations, we propose to test the following hypotheses:

**H1:** The two major reasons for gold jewelry purchase are *adornment* (focused on aesthetics) and *investment* (focused on the quantity) of gold.

**H2:** The two major categories of jewelry sold are *low weight low karat jewelry for adornment* but not for savings, and *low/medium/high weight high karat jewelry for investment* and often adornment.

**H3a:** The two purposes of gold jewelry purchase are *distinct but tend to be intermingled* with respect to products.

**H3b:** In the specific case of bridal jewelry, both adornment and investment needs become important.

**H4:** *Younger customers in urban areas* tend to purchase low weight low karat gold jewelry for adornment whereas *older customers across regions* tend to purchase low/medium/high weight high karat gold jewelry for adornment and savings.

### **Consumer and jeweler perspectives**

In addition to observations on gold jewelry products, we posit the following hypotheses with respect to making charges for gold jewelry based on preliminary observations from the market, anecdotal jeweler conversations and secondary research.

**H5:** *Consumers value the discount on making charges such that the discount makes them shift the purchase occasion without shifting their jeweler of choice.*

**H6:** *Jewelers consider the discount on making charges as inevitable in the face of increasing competition.*

**H7:** *Consumers are willing to pay full making charges if they (are induced to) care about the quality of life of the craftspeople.*

**H8:** *Jewelers are willing to include full making charges on the price if doing so will not negatively impact sales.*

## **Methodology**

In this research, we adopt a multi-method approach: the first study consists of a set of interviews with jewelers and consumers to understand their perspectives on making charges and the scope for varying the same. We expect to observe an overlapping classification of gold jewelry in terms of weight and karat based on adornment needs and investment needs, with the exception being bridal jewelry. The second study consists of a set of experiments to test the proposed approach for price setting by varying making charges.

### ***Study 1: Interviews with jewelers and consumers***

This study is relatively exploratory and will help refine ideas for further testing in study 2. A set of 10-15 interviews will be conducted with jewelers in order to understand various aspects related to marketing of gold jewelry and the role of making charges.



Participants will be contacted through jewelers, industry bodies, conferences, and the researcher's own network. The interviews will address the following topics:

1. Value chain of the jewelry industry and the role of artisans and craftspeople
2. Role of making charges in marketing: discount on making charges, customer perception of this discount, competitive parity on making charges and discount
3. Role of the jewelry association in guiding gold jewelry pricing
4. Customer behavior with respect to gold jewelry, gold jewelry prices including components of price, bargaining behavior, type of jewelry, online versus offline channel differences, and so on.
5. Views of jewellers and jewellery industry bodies on proposed approach to pricing of gold jewelry

A set of 15-20 interviews will be conducted with customers in order to understand their perspectives related to purchase of gold jewelry and perception of the novel approach.

The interviews with customers will address the following topics:

1. Price perception of gold in terms of its components: price and quantity of gold, making charges and wastage, taxes
2. Impact of various retail and product elements on gold price perception: jeweler brand, salesperson interaction, product being purchased, purpose of purchase
3. For customers intending to buy gold as investment or savings: issues related to buyback of jewelry, losses incurred, etc.
4. For customers intending to buy gold for adornment: issues related to usage, importance of price, making charges, design and aesthetics, and other elements, in gold jewelry purchase
5. Extent of awareness and concern for gold jewelry workers, especially karigars

6. Other customer behavior such as accumulative purchase of gold, lack of willingness to sell or exchange the jewelry, role of gold among other assets, and so on.

### ***Study 2: Experiments to test the proposed approach***

While the findings from study 1 will provide important inputs into the proposed approach and design of experiments in study 2, we present here an overview of the experiments that we expect to conduct with customers in order to test the effectiveness and feasibility of the suggested approach.

1. Widely prevalent classification of gold jewelry
2. Extant perception of making charges
3. Acceptability of making charges as value addition rather than an added cost

### **Conclusion**

Pricing innovation has been undertaken by various companies across industries for various reasons such as providing greater transparency to the customer, reducing customer hassle, or communicating better value. The proposed pricing approach for gold jewelry differentiates between various types of gold jewelry products and helps realize the full value of the gold jewelry. Moreover, it tends to encourage the customer towards buying gold for adornment and not for investment. This trend in the buying behavior of customers is one that the Indian government has also attempted to encourage by offering gold monetization and gold bonds as avenues for investment so that jewelry becomes an avenue for adornment. While there might arise concerns on reduction in demand when discounts on making charges are limited, the proposed initiative will enable jewelers to convey better the value they offer so that customers become willing to pay the crafting premium.

## References

- Andrews, M., Luo, X., Fang, Z., & Aspara, J. (2014). Cause marketing effectiveness and the moderating role of price discounts. *Journal of Marketing*, 78(6), 120-142.
- Asokan, M. (2022). Gold jewellery demand nearly doubles in 2022. *The Times of India*, January 29, 2022. Retrieved from <https://timesofindia.indiatimes.com/city/chennai/gold-jewellery-demand-nearly-doubles-in-2021/articleshow/89190201.cms>
- Choi, J., Madhavaram, S. R., & Park, H. Y. (2020). The role of hedonic and utilitarian motives on the effectiveness of partitioned pricing. *Journal of Retailing*, 96(2), 251-265.
- Dhawan, S. (2022). Different ways to buy and invest in gold. *The Economic Times*. Retrieved from <https://economictimes.indiatimes.com/wealth/invest/different-ways-to-buy-and-invest-in-gold/articleshow/64568785.cms>
- Goldhub (2022). Jewellery market structure: India gold market series. World Gold Council Goldhub. Retrieved from <https://www.gold.org/goldhub/research/jewellery-market-structure-india-gold-market-series>
- IBEF. (2022). Gems and Jewellery Industry Analysis. Retrieved from <https://www.ibef.org/industry/gems-and-jewellery-presentation>
- Kardes, F. R., Cronley, M. L., Kellaris, J. J., & Posavac, S. S. (2004). The role of selective information processing in price-quality inference. *Journal of Consumer Research*, 31(2), 368-374.
- Kaur, A. (2020). Tanishq offers upto 40% discount on making charges in flexible jewellery purchase plan. *Mint*. Retrieved from <https://www.livemint.com/money/personal-finance/tanishq-offers-upto-40-discount-on-making-charges-in-monthly-purchase-plan-11606790076956.html>

Livemint. (2022). Chain stores comprise 35% of India's retail gold jewellery market: report.

*Mint*. Retrieved from <https://www.livemint.com/market/commodities/chain-stores-comprise-35-of-india-s-retail-gold-jewellery-market-report-11664347100531.html>

Motiani, P. (2020). How different methods of levy of making charges can sharply impact gold jewellery price. *The Economic Times*. Retrieved from

<https://economictimes.indiatimes.com/wealth/spend/how-different-methods-of-levy-of-making-charges-can-sharply-impact-gold-jewellery-price/articleshow/79205053.cms>

Prelec, D., & Loewenstein, G. (1998). The red and the black: Mental accounting of savings and debt. *Marketing Science*, 17(1), 4-28.

Varkkey, B., Jha, J. K., & Ansari, N. (2022). Labour practices and working conditions in informal gold jewellery manufacturing sector: Perspective of decent work. Paper presented at IIMA-IGPC Conference on Gold and Gold Markets April 10-11, 2022.

## Appendix A: Jeweler communication emphasizing discount on making charges

- a) Store sales of Tanishq: print advertisement highlighting upto 25% discount on making charges

A print advertisement for Tanishq. On the left, a woman in a green and pink saree is wearing a large, ornate gold necklace and earrings. On the right, a white box contains the Tanishq logo and the text: "TANISHQ PRESENTS ★★THE BEST★★ COMBO OFFER ★ EVER ★". Below this, a red box highlights the offer: "UP TO 25% OFF\* ON MAKING CHARGES OF GOLD JEWELLERY & DIAMOND JEWELLERY VALUE + 100%\*\* EXCHANGE VALUE ON OLD GOLD JEWELLERY". At the bottom, there is a list of store locations in Mumbai and other cities, along with contact information and a disclaimer: "Conditions apply - Offer valid on gold jewellery purchase of 75 grams and above - Offer on diamond jewellery valid only on purchases above ₹ 1 lakh - For details on offer refer www.tanishq.co.in/offers or visit the store - \*\*Assuming the old gold exchanged is 22K and above purity - ₹22=₹20".

Source: advertgallery.com

- b) Online jewelry sales of Melorra: webpage highlighting upto 50% discount on making charges

A screenshot of the Melorra website homepage. The header includes the Melorra logo, a search bar, and navigation icons for Offers, Find a Store, Blog, Contact Us, Profile, Wishlist, Cart, and India. Below the header, there are category links: New arrivals, Rings, Earrings, Pendants, Chains, Solitaires, All Jewellery, Gold coins, Second Ear-Piercing, and Fast Delivery. The main banner features a woman in a green dress wearing jewelry. The text on the banner reads: "Upto 50% OFF on Making Charges of Gold Jewellery" and "Flat 40% OFF on Diamond & Gemstone Prices". A "SHOP NOW" button is present. Below the banner, it says "Extra 5% cashback on ICICI Bank Credit Cards\*". A "Help?" button is in the bottom right corner. The URL "https://www.melorra.com" is visible at the bottom left.

Source: <https://www.melorra.com/>



भारतीय प्रबंध संस्थान कोषिककोड  
**Indian Institute Management Kozhikode**  
*Globalizing Indian Thought*

Research Office  
Indian Institute of Management Kozhikode  
IIMK Campus P. O.,  
Kozhikode, Kerala, India,  
PIN - 673 570  
Phone: +91-495-2809237/ 238  
Email: [research@iimk.ac.in](mailto:research@iimk.ac.in)  
Web: <https://iimk.ac.in/publications>

