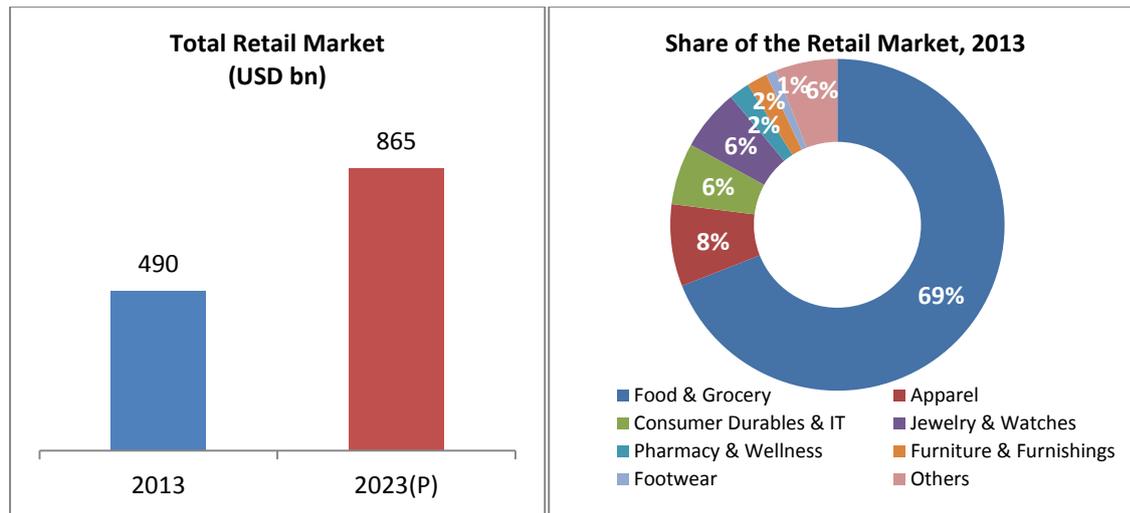


## **Fashion Retail Scenario in India: Trends and Market Dynamics**

The Indian retail market is expected to demonstrate a promising year-on-year growth of 6% to reach USD 865 billion, by 2023, from the current USD 490 billion. The share of apparel in India's retail market is 8%, corresponding to a value of USD 40 billion. In addition to fashion apparel, the growing demand for fashion accessories makes the Indian fashion market both interesting and lucrative.

The Indian fashion retail market has witnessed several fascinating changes and challenges in recent years, which are indicators of the country's evolving fashion retail market. The challenges associated with these changes need to be addressed in the most efficient and prudent manner in order to harness the concomitant benefits.



Source: Technopak Analysis

Exhibit 1: The Indian Retail Market

### **Trends in the Indian Fashion Market**

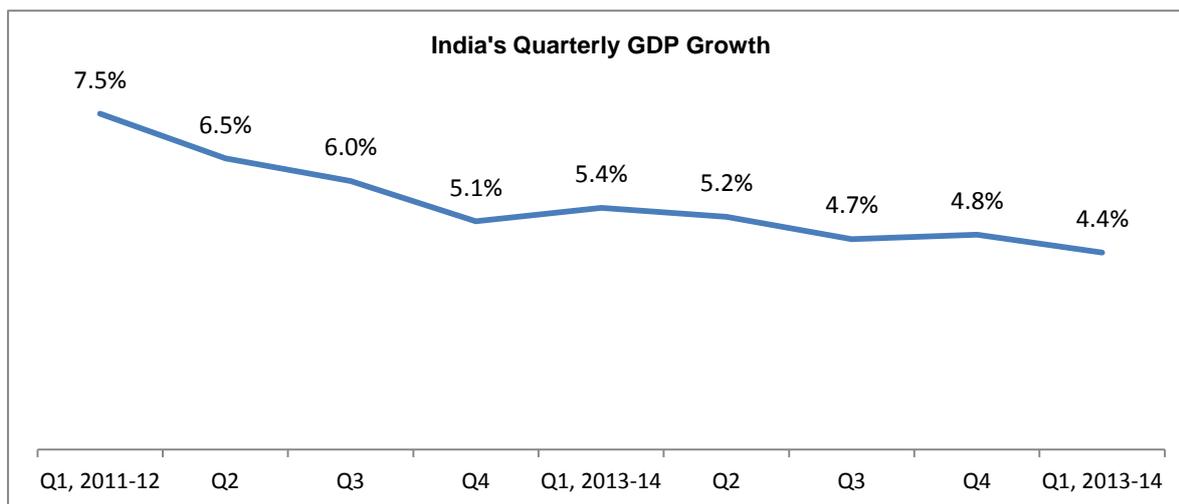
The trends emerging within the Indian fashion market can be broadly classified into four categories, depending on their associations; these are discussed in the following sections.

#### **India's Macroeconomic Scenario**

The sound growth of the fashion products market, driven by the 8-to-9% GDP growth and positive investment sentiment, looks like a thing of the past. The growth story of one of the largest emerging economies, India, has required severe revision. A growth rate under 5%, coupled with double-digit inflation, has dampened consumer demand for fashion items. As a result, the Indian fashion products consumer has become a cautious spender; demanding value for the money spent. In many cases, the Indian middle class has started trading down by shifting to either products available at a lower price-range or to lowering purchase volumes if within the same price range. The recent inflation in food and vegetables' prices has added to the woes of the Indian consumer. Food being an irreplaceable item has eaten into the share of non-food items in recent years.

In addition to the weak economic sentiment, the worsening political environment and an increasing lack of confidence in governments and institutions has negatively impacted the country's overall business competitiveness. As a consequence, the retail market is also hit in terms of business growth.

With no sign of any substantial recovery in the macroeconomic sentiment or any respite from inflation in the near future, the trading down by Indian middle class will continue in the coming months. Non-food items, including fashion, are expected to bear the adverse impact of this trading down.



Source: Central Statistical Organization, India

Exhibit 2: India's Quarterly GDP Growth

### India's Demographic Dividend

The demographic dividend of India is tilted in favor of the consuming age group. In contrast to the increasingly-aged populations in the West, Japan, and even China, India is expected to become the world's youngest emerging economy by 2020, with around 64% of its population in the working age group. This young consuming class has new aspirations and is more open to experimenting with fashion brands and modern designs.

In addition to such a favorable age group, the Indian fashion retail market is expected to deal with a heterogeneous consumer group. The Indian fashion consumer has been traditionally heterogeneous as a result of income disparities, the influence of ethnic clothing, regional preferences, etc. But in recent times, heterogeneity in taste, choice, and preferences has increased substantially even within consumers in the same region and same ethnic group, belonging to the same income level and age range.

The Indian consumer is now conscious about his/her personality and selects such fashion products as might suit his/her personality the best. As a consequence, exclusive ethnic wear brands are multiplying in a market which is also accepting westernwear fashion items more readily.

### Retail-specific Policies

The government's decision to allow Foreign Direct Investment (FDI) in multi-brand retail is considered one of the most radical and reform-oriented decisions taken in recent times. However, despite the approval of the Indian parliament, the country is yet to witness any major inflow of FDI in multi-brand retail. The declaration of the major opposition party to the effect that it would disallow FDI in multi-brand retail if it comes to power, combined with rules specific to backend infrastructure and local sourcing have been the most contentious issues.

The policy governing FDI in multi-brand retail necessitates substantial investment in backend infrastructure. At present, most domestic retailers have not made substantial investments in backend infrastructure. Most of them outsource apparel manufacturing as well as logistics to third parties. However, a select few have their own manufacturing facility. Most domestic retailers own warehouses in different regions of the country and possess the IT infrastructure needed to manage inventory and operations. Investments in backend infrastructure development could be a challenge for many international, multi-brand apparel retailers seeking entry into India through the FDI route.

The policy also requires retailers to source at least 30% of their products from such domestic sources as medium and small scale industries. It is expected that, due to the presence of the vertically-integrated textiles and apparel industry, local sourcing will not be a constraint for international retailers.

Despite the initial reluctance of retailers, it is crucial to note that many international retailers will enter the Indian market through the FDI route within a couple of years. This will open up an opportunity to learn international best practices and thus improve India's overall business performance. The fashion and fashion accessories industries are also expected to benefit from better product designs and improved deployment of technology.

### Consumers' Buying Behavior

One of the most critical factors determining the success of fashion retailers in India is the ability to gauge trends in consumer purchase decisions. The Indian fashion consumer is undergoing an evolution and is rapidly adapting to international fashion statements. Increasing disposable incomes, exposure to international events and fashion icons, and rising confidence levels are driving the changes in the consumer purchase behavior. Some distinct consumer trends expected to impact the Indian fashion market are:

### Increasing Time-poverty

India's core consuming class is experiencing an ever-increasing time-poverty. The richer sections of the society are able to outsource most of their activities to the poorer sections who work as domestic help, shop and office attendants, etc. Routine activities that do not require a personal presence, e.g. cooking, vehicle servicing, grocery purchases, etc. are outsourced to others. Being an emerging economy with a large rural population, there is no shortage of people who might work as domestic help or attendants, at relatively lower wages. On the other hand, these poorer masses lack substantial purchasing power to contribute to the retail economy. However, the worst-hit section is the middle income class, as, for them, it is a clear trade-off between the time required for their regular employment and the time needed for routine, yet necessary, activities that are generally time-intensive.

### Shift from Need-based Purchasing to Aspiration-based Purchasing

There was a time when fashion items were being purchased as and when required. Now-a-days, fashion clothing is more than a basic need; it is a reflection of aspiration, personality, and one of the biggest status symbols. The Indian fashion consumers can tell the difference between unbranded and branded apparel. They are able to decode the messages communicated by different brands on different occasions. The aspirational youth is also influenced by peer groups working with multinational companies and having international exposure. Though basic textiles and footwear continue to be a part of the consumer's basket, the demand for aspirational fashion clothing and fashion accessories has increased substantially in recent years.

### Growing Value Consciousness

Although the fashion consumer is willing to spend more on clothing and accessories of choice, the consciousness of value received for the money spent has increased manifold. The weak economic outlook and higher inflation rates have also contributed to this heightened value consciousness. There is a distinct differentiation between pre-2008 and post-2008 India. Even while long-term faith in the growth and consumption story of India stays intact, the short-term scenario appears bleak. The fear of job loss, stagnation of personal income, increased spending on food, etc. have a profound impact on the purchasing behavior of consumers. The consumer is inclined towards value and affordability, but, at the same time, there is an inherent need for a fashionable look.

### Increasing Acceptance of Digital Technology

Technology has become an inevitable part of consumer lifestyles. The increasing access to the Internet, at a more-affordable cost, and the higher penetration of digital devices has influenced consumers' buying patterns substantially. Today's consumer has greater access to fashion products through the Internet and digital devices. He/she compares products, prices, brand offerings, service levels, and the feedback/opinions of fellow consumers before making any purchase decision.

Year	2008	2010	2013	
No. of active Internet users (mn)	50	75	> 120	
Activities online	-Email -News		-Email -News -Travel -Social media -Shopping	-Gaming -Video streaming -Applications downloads -Mobile/Internet banking
No. of Facebook users (mn)	1	8	79	
No. of Indian Railways tickets booked online per annum (mn)	19	72	120	
No. of income tax returns filed online per annum	2	5	21	

Source: IAMAI, Income Tax Department, Government of India, Indian Railways, Facebook, Industry Sources, Technopak Analysis

Exhibit 3: Evolution of Internet users in India

### Evolution of Fashion Retail

The distinct trends in the macroeconomic scenario, the favorable demographic dividend, retail specific policies, and consumer buying behavior, have triggered a transformation in the fashion retail market which is also reflected in the changes undergone by the Indian retail industry. These take the form of modernization and corporatization of retail businesses, the evolution of alternative retail landscapes, the customization of product portfolios to address the specific needs of various consumer segments, the increasing success of private labels, and the growing focus on business efficiency.

## Corporatized Retail

Corporatized retail is expected to grow in India, from a share of 8% in 2013 to 24% by 2023. The drivers of this growth are expected to be the continued large share of private consumption in India's economy, the growth of alternative retail, and the continued growth of brands and retailers.

Category	Corporatized Retail Share (2008)	Corporatized Retail Share (2013)
Food & Grocery	1%	3%
Apparel	14%	19%
Consumer Durables & IT	10%	20%
Jewelry & Watches	6%	10%
Pharmacy & Wellness	3%	4%
Furniture & Furnishings	6%	8%
Footwear	21%	27%

Source: Technopak Analysis

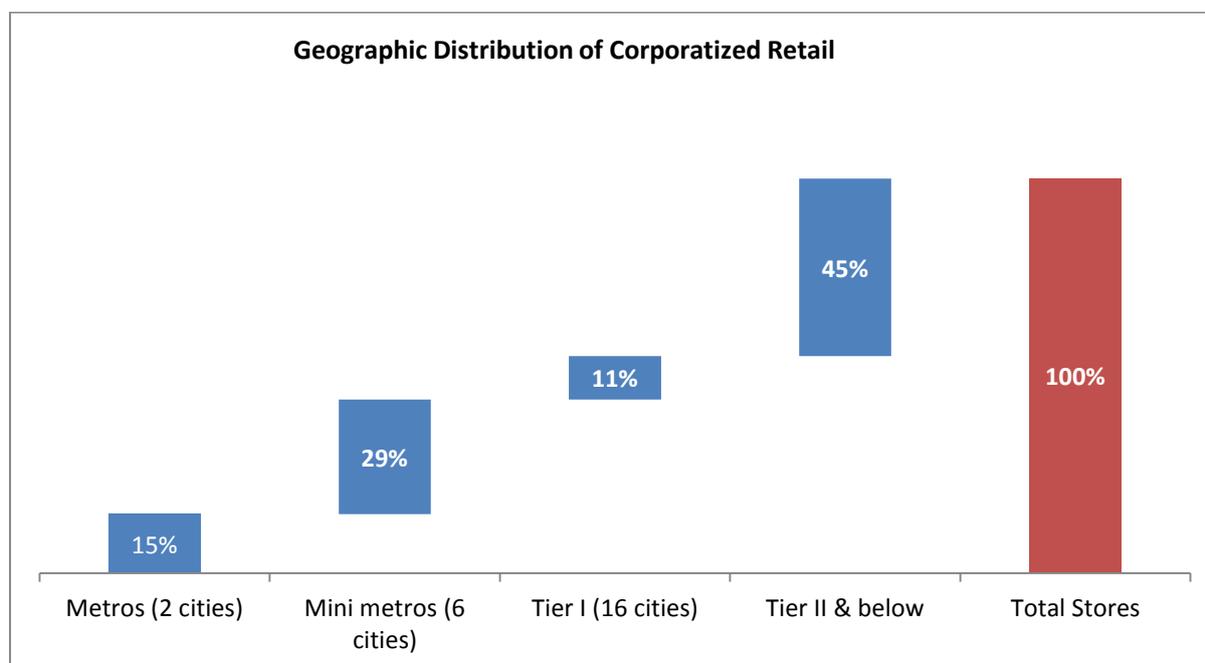
Exhibit 4: Share of Corporatized Retail

Interestingly, in the Indian market, the receptivity of apparel and fashion products towards corporatized retail has been high. As of 2013, 19% of the total apparel market was made up by corporatized retail. Footwear and consumer durables are the only other major categories which have a high share of corporatized retail, at 27% and 20%, respectively.

Many industry players believe that the increasing penetration of corporatized retail in the fashion category has contributed to the improvement of the country's retail ecosystem. Corporatized retail has induced greater consumer spending due to improvements in product quality, reliable product specifications, and better management of store service levels.

However, in the coming years, the growth of corporatized retail will be driven by its increasing penetration beyond the major urban centers and the development of alternative retail models.

Currently, the top 24 Indian cities contribute around USD 21 billion to the retail market which corresponds to 56% of total corporatized retail and 30% of the overall retail market.



Source: Technopak Analysis

Exhibit 5: Geographic Distribution of Corporatized Retail

### Alternative Retail Landscape

The rapid growth of alternative retail channels, e.g. direct selling, home shopping networks, and e-tailing indicates the evolution of an alternative retail landscape. The factors driving alternative retail are reach and convenience, which are directly linked with evolving consumer buying patterns like time-poverty and the increasing acceptance of digital technology.

Traditional retail players focused more on metros and mini metros. At the same time, brick & mortar model was considered most viable. However, the trend has changed substantially in the recent years. Retail players have realized the consumption potential in the emerging sub-urban markets of Tier II and Tier III cities.

There was a time when industry experts were of the opinion that fashion products have less potential for e-tailing due to such issues as fit and feel. However, due to the rigorous and committed efforts of the fashion e-tailing players, Indian consumers have accepted e-tailing as a convenient model for fashion purchases.

### Customization of Product Portfolios

A successful retailer must be able to attract consumers of different age groups and belonging to different socioeconomic strata. This requires excellence in product packaging and prudent structuring of product portfolios. Many retailers have started observing the buying behavior of consumers from different strata and have customized, discounted offerings and promotions based on the specific requirements of each consumer segment. Product bundling, and product displays, has also garnered more attention as a means of engaging consumers.

### Proliferation of Private Labels

The industry is also witnessing a surge in the demand for private labels. In order to gain better control over products, and to milk the profits associated with brand recognition, retailers are introducing new brands and focusing on marketing activities to increase sales of these brands. This approach will, over the long-term, help retailers capture the consumer's attention. Additionally, private labels will help in managing supply chains and pricing, and thus impact the retailers' bottom lines.

Retailer	Name of the Private Label
Shopper Stop	<ul style="list-style-type: none"> <li>• STOP</li> <li>• Kashish</li> <li>• LIFE</li> <li>• Vettorino Fratini</li> <li>• Elliza Donatein</li> <li>• Acropolis</li> </ul>
Lifestyle	<ul style="list-style-type: none"> <li>• Ginger</li> <li>• Melange</li> </ul>
Pantaloons	<ul style="list-style-type: none"> <li>• John Miller</li> <li>• Scullers</li> <li>• Indigo Nation</li> <li>• Lombard</li> <li>• Bare</li> <li>• DJ &amp; C</li> <li>• Buffalo</li> <li>• Rig</li> </ul>
Westside	<ul style="list-style-type: none"> <li>• Ascot</li> <li>• Richmond</li> <li>• Gia</li> <li>• Wardrobe</li> <li>• Westside</li> <li>• Westsport</li> <li>• Nuon</li> <li>• Zuba</li> </ul>

Source: Company reports, secondary research

Exhibit 6: Select List of Private Labels in Indian Fashion Market

## **Growing Focus on Business Efficiency**

With the introduction of corporatized retail, the deployment of professional management concepts has increased within the Indian retail market, including fashion retail. With the implementation of scientific management systems and the application of Information Technology tools, the Indian retail sector is heading for an efficiency-driven ecosystem with consumers at the core. It is critical to understand that business efficiency is a broad term that covers products/services, people, and processes. Some key elements of efficiency-driven ecosystems are also emerging in India's fashion market landscape; these are described hereafter.

## **Application of Technology**

In a world rapidly adapting to Information Technology and digital devices, fashion retailers have to deploy the right kind of technology for improving business efficiency. At a broad level, the application of Information Technology will have two different dimensions, viz.

**Process and people management** is an integral part of a retail organization. Sub-optimal process management has a direct impact on the organization's revenues and costs. But the hidden cost of suboptimal processes goes beyond the obvious as these adversely impact consumer psyche, the company's image, its employees' morale, and the attitude of vendors and suppliers.

Although most Indian retailers own IT infrastructure for inventory management, there is substantial scope of improvement in the application of Information Technology in supply chain management, vendor management, training and development, tracking of industry trends, etc.

Information Technology also has great potential for attracting consumers to retailers irrespective of the format. Fashion consumers today are smart enough to compare prices across brands and retailers in various formats. They look for detailed product features, compare fashion items in terms of fiber content, design, wash instructions, etc., and review product ratings and opinions. Thus, retailers need to use advanced analytics and ERP systems to scan the consumer mindset and tailor retail formats, and pricing and promotion strategy accordingly.

## **Customer Relationship Management**

It is a misconception that customer relationship management is just an IT tool to track buying behavior. Fashion retailers have to dive deep into the needs, wants, and desires of their customers for two specific reasons. First, unlike other retail products, fashion products are very close to the customer as they reflect the personality of the customer. Second, retailing is not entirely about selling products; it is a complex mixture of products and services.

In the case of the brick and mortar model, the customer is also influenced by the product's display, the behavior of salespersons, the overall ambience of the retail outlet, etc. There is a need to understand the kind of customers who visit a particular store and the value proposition that each customer segment expects from the retailer. The service offering has to be customized as per the customer's requirement.

Direct selling of fashion products, as also their e-tailing, also requires a focused approach towards customer relationship management. It is observed that customers with a bad experience in terms of the delivery of fashion products (different size, color, etc.) prefer one particular retailer to another. Although a retailer might prefer clubbing issues relating to delivery of inappropriate products with operational issues, it is actually a customer management issue.

## **Human Resources Management**

In an industry characterized by growth, dynamism, and countrywide focus, human resources management becomes more important than ever. Aligning organizational structures to consumer needs, designing employee compensation policies keeping in mind their roles, implementing effective training and development programs, recruiting and retaining talent, etc. are some of the key challenges that fashion retail players have to address.

One of the critical aspects of human resource management will be the development of an organizational culture as this will have a direct impact on employee morale and their attitude towards customers.

## **Environmental Concern**

Eco-friendliness will also be a critical performance metric for retail organizations. Although the aspects of green marketing are still at a nascent stage in India, it is expected that a section of consumer groups and non-governmental organizations will ramp up their vigilance on the environmental friendliness of companies.

Retailers will face questions related to the kind of labor employed by their manufacturers, e.g. whether dyes and chemicals used are in compliance with environmental norms, whether proper manufacturing and waste management practices are followed, etc. Fashion retailers in India have to keep abreast of the times and must

start marketing their environment policies to gain a competitive edge over their competitors. On a positive note for fashion retailers, India's textiles and apparel suppliers have a proven expertise in meeting the environmental standards of Western markets and have shown their ability to meet the expectations of leading international brands.

### **Challenges for Fashion Retail in India**

Some key challenges faced by retailers in general, and fashion retailers in particular, are the heterogeneity of the market, evolving customer needs, rising real estate rentals, a complex tax regime, and infrastructural bottlenecks. These challenges have been addressed through innovative thinking by some retailers, but many of these issues need to be addressed by collective bargaining and mutual collaboration at industry level.

#### **Heterogeneity of the Market**

Heterogeneity is a key characteristic of the Indian retail market in general. The complexity of the market can be decoded by comparing it with the developed retail markets of the West. For example, in the US, there are 4 shops for every 1000 people whereas the corresponding number for India is 14 shops per 1000 people. The Indian retail market is characterized by a diverse spread of customers with unique preferences.

From a retailer's perspective, this requires a thorough understanding of consumer preferences across the country and of the similarity and differences in consumer buying patterns.

#### **Evolving Customer Needs**

Evolving customer needs are a challenge for Indian retailer as these require rediscovering the customer within a short time span and then rearrange the organization's structure, retail formats, and product portfolios accordingly. Unlike a mature retail market, the retail market in India has to continuously focus on the process of learning, unlearning, and relearning. Again, this alone is not sufficient; the insights gained in the process must be translated into actionable business decisions.

#### **Rising Real Estate Rentals**

High leasing costs resulting from mispriced commercial real estate is a major concern for Indian retailers. Additionally, it is very difficult for retailers to find suitable commercial retail space in most Indian cities. Real estate rents and space availability are characterized by fragmented ownership, irregular auctions, inappropriate store designs, etc. Retailers have to push governments to allocate more retail space which can be rented/leased-out at reasonable cost.

#### **Complex Tax Regime**

The Goods and Services Tax (GST), which aimed to enforce a uniform tax regime, is yet to come into force. The current tax regime continues to be complex thanks to multiple tax enforcement authorities, varying tax rates, duplication of taxes at different points. At present, the taxes charged by different states vary from one another, and so a national retailer needs to understand state-specific tax rules and plan retail models accordingly.

On a positive note, the government has realized that the simplification of the tax regime and the deployment of uniform tax rates will be a huge step towards reforms. Hopefully, the GST will be effective sooner rather than later, and will provide abiding relief to retailers.

#### **Infrastructural Bottlenecks**

Indian fashion retail is hit by infrastructural bottlenecks due to the poor conditions of roads, highways, etc. which creates supply chain constraints and increases inventory costs.

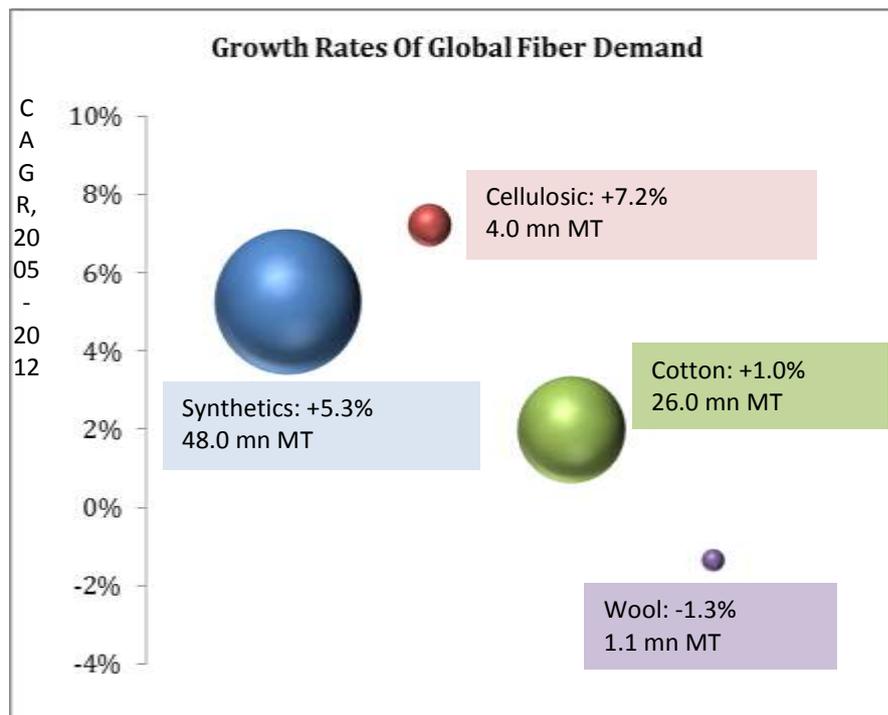


Exhibit 7: Growth Rates of Global Fiber Demand

However, one of the less discussed but more critical infrastructural bottlenecks for the Indian fashion retail industry is the lack of fiber neutrality. Customer demand for manmade fiber-based apparel is growing globally. It is unfortunate that India lacks the infrastructure to manufacture and process manmade fiber-based apparel in general and polyester-based apparel in particular. This bottleneck is partially caused by government regulations that impose high excise duties and import duties on polyester. There is thus a need to overcome the deficiencies in the polyester-based fashion products segment as it is difficult to resist the growing demand for manmade fiber-based clothing.

### Conclusion

The Indian fashion retail industry encompasses a plethora of opportunities. But tapping these opportunities, and converting them to business value, requires a holistic understanding of the industry, starting from fiber-to-fashion retail. Fashion retailers have to go beyond the boundaries of sales, marketing, merchandising, and category management, and have to explore upstream and allied industries with accuracy. Often, an external agency, having a proven track record of working with the major international and Indian fashion retailers as well as textiles and apparel manufacturers, industry bodies and trade organizations, government agencies, banks and financial institutions, brings a deep and thorough understanding of the fashion market and provides effective and actionable solutions to retailers.

Fashion retailers in India have to continue realigning and restructuring their models to cater to the evolving needs of this dynamic market. The opportunity in the fashion market is immense, but this opportunity exists only for those who can visualize the future and reinvent themselves in order to address the associated challenges.

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