

8 Student's Paper

A Study on the Growth in Apparel Retail Sector

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Introduction

An Apparel retail industry has grabbed special attraction in recent days. Top exporters who were manufacturing apparels for foreign countries have introduced their own brands in the market and are aggressively positioning themselves within segments of the domestic market. The increasing importance of branded clothes in the domestic market combined with the import competition is blurring the boundaries between exports and domestic production in countries with large home markets, such as India.

With the changing lifestyles of the Indians and the organized retail business is playing a key role in structuring the Indian domestic market, reinforced in particular by rising incomes and growing purchasing power among consumers in rapidly growing sectors of the economy such as information technology and business process outsourcing.

Garment retail sector in India is making a way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. The branded apparel market represents the largest source of growth. The men's branded apparel market is growing at a rate of 21.8% and branded women's apparel segments represents 35% of the total branded apparel market and is growing at an incredible 23% annually.

Domestic retailers are becoming more firmly entrenched, increasing their scale of operations and stabilizing their Freight and technology initiatives. Foreign players have been selling their branded apparel in India for number of years. But, now, just like their Indian counterparts, international apparel brands are making up their chain of ap-

parel outlets of their own, instead of just selling through departmental stores. Though local retailers generally enjoy higher margins, they won't be able to keep global retailers at bay for long because of international experience of their product, buying power of customer, IT systems and cash flow to tolerate lower profits. Presence of these brands will make the Indian Consumer become more aware of the international fashion and lifestyle trends leading to a move-up of the industry in the value chain. In this paper, the recent trend and prospect of apparel retail sector in India have been discussed.

The Global Retail Scenario

Retailing has been defined as the business activities involved in selling goods and services to consumers for their personal, family or household use. The 20th century witnessed a lot of change in the retail sector, especially in the developed countries. Modern trends such as department stores, Margin free stores, supermarkets, convenience stores, fast food outlets, speciality stores, warehouse retailers and hypermarkets have emerged. Retailing has become more organized and chain stores have been growing at the expense of independent shops.

The chains are utilizing sophisticated information technology and communication to manage their operations and have grown rapidly not only within their home countries like US, UK, France, Germany and Holland but to other developed countries. For example Walmart Stores, the US retailer, one of the largest firms in terms of sales. Modern retail formats have also spread beyond developed countries and are becoming more important in the developing countries.

Indian retail industry cannot hope to learn much by merely looking at the Western success stories of retail stores and their chain showrooms in retail. Their scales of operations are very huge, the profit margins that they earn are also much higher and they operate in multiple formats like discount stores, warehouses, supermarkets, departmental stores, hyper-markets, convenience stores and specialty stores. The economy and lifestyle of the Western culture is not in line with that of India and hence the retailing scene in India has not evolved in the same format as the Western nor can we learn valuable lessons from their style of operation.

Indian Apparel Retail Scenario

In its market research report, Indian Retail Sector - An Outlook RNCOS estimated that the Indian apparel retail industry generated revenue of \$2.0 billion in 2004 with a growth rate of 8.2% during 2000-14. As a result, Apparel retail industry in India is second largest in the world after China. The Indian apparel retail industry varies within even short distances, as the designs of the outfits are based on the regions.

According to this year's Global Retail Development Index India is positioned as the leading destination for retail investment. This followed from the saturation in western retail markets and we find big retailers like Wal-Mart and Tesco entering into Indian market. With the organized retail segment growing at the rate of 25-30 per cent per annum, revenues from the sector are expected to triple from the current US\$ 7.7 billion to US\$ 24 billion by 2020.

In fact, despite the FDI policy pertaining to retail being unclear, over 10 foreign niche segment retailers have recently set up or announced their intention to set up shop in India using the franchise route, with several others waiting in the wings.

International brands such as Benetton, Lacoste, Flying Machine, Ruggers, Levi Strauss, Crocodile, Dockers, Lee, Wrangler, Nike, Reebok, Adidas, Guess, Esprit, Mango, Hugo Boss, Mark & Spencers and Tommy Hilfiger have already built a retail market in the country, while market watchers point out that several more such as Versace, FCUK, Zara, Mother Care, Ikea, Fendi, NEXT, Debenhams, Trussardi, and DKNY have charted

out a strategy to enter the Indian market. Most of the brands entering the market are targeted at the premium end. According to estimates, the premium apparel segment in India is valued at about Rs 1,900 crore and growing at 20 per cent.

In addition to the patterns above, four additional factors which are transforming supplier capacities in ways that are blurring the boundaries between firms producing for the domestic market and those producing for exports are as follows:

1. Enhancement of local capabilities in the area of logistics i.e. warehousing and customized tracking systems.
2. Interesting emergence of design as a source of competitive advantage in Indian apparel industry.
3. Growing importance of local investment by Indian apparel firms as a way to counter the exclusion of India from all major regional trade agreements and the advantage of tariff free entry into major markets that many of India's competitors enjoy i.e. Mexico in the US markets, Turkey and Bangladesh in EU markets.
4. Increasing focus on domestic brands.
5. Increasing brand consciousness among people.
6. Government support towards local makers.

Renowned exporters in the country such as Reliance, Arvind, Raymond, Orient Craft etc. are developing their supply networks and distribution systems, seeking distinctive niches and generally staking out their terrain in the domestic market to consolidate their first mover advantage. Success story has emerged in the domestic apparel garment segments for the local brands and not limited to Pantaloons, Lifestyle and West Side only. No wonder a heavy weight like the Reliance group is planning to do a Wal-Mart in India.

Now there is an increasing demand of branded apparel segment in the domestic retail market for the same features that are valued in demanding export markets. These shifts in retail are fuelling the demand for good quality and trendy apparel, which in turn deepening the importance of aesthetics and design in the domestic market. It is worthwhile to mention that the rise of younger class of middle-class consumers, spawned by the booming BPO and IT sector, has led to burgeon-

ing demand for locally designed, ready to wear clothing in Indian metros. As many surveys have established, with good salaries, strong peer pressure and the growing availability of brands across product categories, spending in retail is being driven by the youth segment in large and mid-sized metros.

Development of Retail Concept

With the advent of the e-commerce, new retail concepts have also been developed. It is a necessary component for keeping stores fresh and relevant and for staying ahead of their competitors. Also making ease access of their customers. This is even more important today when consumers will have numerous options available. Now is the time for retailers to be developing new concepts or, at the very least, rethinking and reenergizing their current formats. An important and compelling reason for innovation is the overall compression of the retail life cycle. Where a concept once had 30 to 40 years to progress through the retail life cycle, the average life cycle is now greatly compressed. In the present scenario, ideas get into market faster, grow more explosively, and face obsolescence in a shorter period.

The driving forces towards development of apparel retail in India are:

- Economic developments
- Changes in consumer needs, attitudes and behaviour
- Influence of fashion
- Changes in government policies
- Increased investment in retailing
- Rise in power of organized retail.

Economic Development

The development of the Indian economy is a necessary condition for the development of the Indian retail sector. The example of Thailand shows that the motivation to modernization of retail was provided by the economic boom in Thailand. Development increases the disposable income in the hands of consumers which leads to an increase in the proportion of spending on discretionary non-food items. Economic development also empowers new households as potential customers

for modern retail and leads to increased ownership of personal transportation among consumers, which in turn can increase their willingness to travel longer distances to shop in new format stores. The growth of the economy can also provide gainful employment to those who would otherwise enter retailing in areas like hawking, roadside vending and other similar low cost entries into the retail sector. Rapid economic development may also positively influence the views of international retailing companies about the business prospects and investment attractiveness in a country. A high degree of inflation in the economy is however, not conducive to modernization of the retail sector. In Brazil, the real progress in retail was noticed only after the stabilization of the economy and control of inflation. Development also has an influence on the regions and cities where modern formats are initially set up.

Changes in Consumer Needs, Attitudes and Behaviour

The growth of modern retail is linked to consumer needs, attitudes and behaviour. Marketing channels emerge because they receive motivation from both the supply side, and the demand side. On the demand side, the marketing channel facilitates to provide service outputs that consumers value. These service outputs may include but are not limited to bulk-breaking, three-dimensional convenience, waiting and delivery time and collection. In Indian retailing, convenience and merchandise appear to be the most important factors influencing store choice, although ambience and service are also becoming important in some contexts. Modernisation will have to address convenience issues while presenting strong alternatives to the weaknesses of traditional formats in selection of merchandise available for sale. Modern formats need not be expensive and can offer lower prices to consumers. Lower prices in turn will increase the attractiveness of modern formats and rapid growth in the preference for purchasing from new format stores.

Store ambience includes issues such as lighting, cleanliness, store layout and space for movement. Modern stores can offer a far better ambience compared to traditional stores. On the service front, traditional stores offer credit and home

delivery. These needs will have to be addressed by new format. Experience from Brazil shows that the combination of entertainment and shopping provided by some shopping centres, is attractive to consumers. This may become important in India as well because of the limited entertainment options currently available in cities. While consumer needs, attitudes and behaviour will influence the development in retail; it is likely that investments in retailing and the creation of new stores offering value will in turn influence consumers. This appears to have happened in Greece, Thailand and Brazil.

Influence of Fashion

Fashion has played a key role in shaping apparel consumers. With the change in lifestyle, fashion in India is becoming more stratified, as in the West. Technology, ideas and lifestyles are moving concurrently, and speedily. Companies and brands that offered uninteresting, mundane products for years have now tripled their product ranges and new appealing shapes and forms are being launched each season. Top notch professional bodies in fashion trade are now working towards developing the fashion supply chain through backward linkages with suppliers and mills, and forward linkages with the retail and distribution network.

Changes in Government Policies

The Indian government has clarified on a number of occasions that foreign direct investment will not be permitted in India in multi-brand retailing. Major international retailer organizations

will be watching for signals of policy change especially because China has permitted foreign investment in retail. In opening up the retail sector, the government may consider various approaches such as insisting on joint ventures, limiting the foreign stake, or specifying the city areas where investment is permitted. Thailand's example shows that in case of joint ventures, the local partner can play a significant role in the success of the joint venture. Some policy protection can be given to consumer cooperatives which have been providing value to their members and customers. This protection can be in the form of allowing these organizations to access capital from the local market and operate in a more professional manner. The government can also play a positive role in simplifying or eliminating the plethora of regulations governing retailing. Specific laws relating to franchising will also be desirable for foreign and Indian brand owners to adopt the franchise route in a bigger way. According to the new directive of Indian Govt, foreign chains selling single brands were allowed to take up to 51% in Indian joint ventures.

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