



Management consultant Harminder Sahni analyses the highs and lows of the fashion retail industry. Covering a spectrum of topics, each month he looks at the need of the hour for India.

International Brands and Sourcing Strategies

India's booming retail sector and emerging opportunities are one of the most talked about topics. Fashion retailing commands a significant share of this growth and evolution of the industry. With increasing number of brands and retailers, both domestic and international, fashion retailing is taking-off in a big way in the country. If you visit any mall in Delhi or Mumbai, you will be surprised to see the number of fashion brands present, as these drive both footfall and business. You will be more surprised to see that majority of these brands are international, with a new brand being launched almost every month.

How do these international brands decide on their next target market for expansion? There are multiple factors behind the decision making process but I believe that the two most critical ones are - first, the demand potential of the target market, that is, the willingness of consumers to buy products at the given price and if there are enough number of such consumers to cater to; and second, the supply capabilities of the brand in the

new market, that is, the ability to sell the right quality product at the right price.

With rapid evolution of fashion in the country, Indian consumers are also evolving and becoming more tuned to the global fashion trends. This is fuelled by increasing disposable income and spending power, changing lifestyle patterns of consumers and rising global awareness. So, the opportunity in India in terms of demand potential is huge with a significant untapped consumer base that is young, fashionable, willing to experiment and spend. International brands are realising this opportunity and that's the reason India expansion is on their radar as far as demand is concerned.

One of the key concerns for any brand prior to entering a new country is "how to source products and where to source from." International brands who have ventured in India have adopted different sourcing strategies depending on the length of their existence in the country, pre-existing sourcing base in India, order sizes, target consumers, et al. Typically, any brand would follow a sourcing curve where it initially source products from its international supply chain and gradually work towards establishing an Indian supply chain. Their movement along the sourcing curve can be traced to three distinct phases - preparation, transformation and maturity, each phase indicating a shift in their supply base as they transcend their journey in the Indian market place. Any supplier they identify today may not be the ideal one for them tomorrow.

First is the initial preparation phase, where any brand has to spend time and effort to test the market, understand it

well, establish linkages with the local suppliers, et cetera. So, as a part of their strategy they enter the market, launch few flagship retail stores, build consumer base and loyalty. They source products from their international trusted suppliers and not take any risk with the product quality and on-time delivery. For instance, European high fashion brand Jack & Jones or ONLY have entered Indian market lately and are doing 100 per cent sourcing from their international base.

Second is the transformation phase, in which the brand has been in India for a while and is shifting or probably expanding its sourcing base to India. They have developed their strategic model for the





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Indian market and have expansion plans in place. Take the case of leading U.K. brand, Marks and Spencer (M&S), which is already buying 30 – 40 per cent from India and is planning to increase sourcing to an extent of 80 – 90 per cent.

The last is the maturity phase, in which international brand is like a home-brand to Indians and India is a kind of home market for them. The brand has penetrated Indian cities to reach to a wide consumer base, developed local supply chain, and is churning out large order sizes. Benetton is a good example here which has been in India for almost 10 years and is sourcing majorly from India.

The ideal situation for any brand which has entered or has plans to enter the Indian market, is to reach the end of this sourcing curve and start sourcing from India (or their country of sales). They can take several advantages by sourcing the product locally. They can save on the import duties, which is quite high in case of India at 30 per cent. Any savings on account of these import duties can bring significant price reductions in this competitive industry. For instance, if the Free On Board price of a garment is \$20, then duty at the rate of 30 per cent is \$6. Taking a multiple of 5, the impact is an increase of \$30 on MRP. This implies that a consumer has to pay 30 per cent more for the product due to these import duties. Local sourcing is not just cost competitive

but also shortens the supply chain and increases speed to market. Today, when everyone is talking about fast-fashion and quick response time, it is becoming imperative for these brands to develop efficient supply chain with shorter lead times, preferably in the domestic markets.

Sourcing locally is beneficial and wishful situation for all brands in the long run. As I have mentioned earlier, it takes certain amount of time to develop the supply chain and relations with vendors in a new market. Unless, each stage is evaluated properly, no brand wants to take the risks. Another challenge faced by some of the brands in the initial stages is their small order sizes. As they have few stores initially, they fail to have large order book; and large Indian manufacturers and exporters may be resistant to take these small-sized orders. But now, with growing needs of fashion, these exporters have started working on smaller runs and are willing to accept these small domestic orders. The only thing they demand is on-time payment and prefer to work with the brands which are ready to commit payment on time. These exporters are used to working with letter of credit (LC) terms which gives them assurance of payments and they need similar assurance while catering to domestic orders too.

Development of India as a sourcing hub shall make India an attractive destination for the global brands for

further opportunities in sourcing as well as retailing. International brands entering India bring in foreign direct investments (FDI) in the sector. It is often seen that when these brands enter India, they convince their global suppliers to set up manufacturing capacities in India. Many of these suppliers are already eyeing entry to India in the form of partnerships with trusted domestic manufacturers. Now, with an opportunity to continue supply to these big brands, they get all the more reason to invest in India. This increases confidence of domestic manufacturers and exporters to make more investments in the sector and expand their capacities.

Entry of international brands also helps in integrating these brands with the suppliers as they are no longer looking for cut, make and trim (CMT) suppliers only. They are looking to establish strategic, long-term tie-ups with suppliers having additional offerings in terms of product conceptualisation, sample designing and product development. Domestic manufactures can leverage this opportunity and build their design and product development capabilities while working with global brands.

I can envision India as a global sourcing hub catering to various brands operating within or outside India. I look forward to the day when we see all garments with a label "Made in India, Bought in India and Sold in India." 