



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.

## The Darker Side of the **Business of Fashion**



**T**he *Observer* in the U.K. created quite a stir few months back with its report about leading brands sourcing from non-compliant factories in Bangladesh. The headlines read “a new sweatshop scandal” and rightly so because the so-called factories are sweatshops in real terms and it scandalised consumers in Western markets. Picture the plight of a consumer who just shopped for her new jeans at a fancy department store. She made her selection from a wide range of brands and designs and probably after trying it out in a spacious trial room. The store in all probability would have been in a mall situated on one of the most expensive high streets in the world. She blithely walks out only to come across this screaming headline on the news stands. Imagine the state of mind of that conscious consumer and her reaction towards that retailer. Millions of consumers reacted to this news item and retailers were forced to issue clarifications and declarations to be more vigilant about their suppliers and their practices.

This was neither the first time and nor is it likely to be the last time that leading retailers are accused of sourcing from non-compliant factories that employ child labour, working in horrible conditions and/or don't pay full wages and/or make people work really long hours without paying for the overtime. But such news items do push retailers to be more stringent while selecting their sourcing partners and agents in different parts of the world. In fact, I believe more than the retailers and consumers in the developed world, the real beneficiaries are people working in various factories in developing markets. The indirect pressure of the final consumers through the customers (retailers) works well to ensure that

factory owners aren't cutting costs and exploiting workers because they can manipulate the local administration.

This is all very good and is working well as far as the export business is concerned, but the story in the domestic fashion supply side is quite different. We all know that the Indian domestic ready-to-wear market is quite young and most of the supply chain is largely disorganised. The larger and more modern garment factories are focused on serving the export markets for obvious reasons such as large orders, assured payments and export incentives. On the other side, the domestic retailers are dependent on small and micro manufacturers that are sometimes as small as ones with only 10 machines

operations. These tiny factories are obviously non-compliant even to the basic standards of any manufacturing. Most of these aren't even registered with authorities and hire most of their labour on a daily basis and pay them by the number of pieces produced. Despite the fact that on paper these don't exist, they can be found all over the country be it in Bangalore, Delhi or Mumbai. Sometimes these factories are located so

for them. These factories could produce smaller orders but certainly want to be paid premium to compensate for their loss of production. And it is quite obvious that domestic customers aren't in a position to pay that premium as domestic consumers are very price sensitive so they cannot pass on the additional cost. That brings me to the second reason for the existence of such sweatshops and retailers and brands'

capture as much market share as possible. With aggressive expansion plans already half way down the road as malls are coming up for occupation, these retailers are always looking for even cheaper sources to offset the high rental costs. I had expected that with rising volumes they would be looking for better factories and suppliers. But it



deep in the slums or hidden in the basements of unauthorised buildings that even the neighbours aren't aware of their operation. Many such factories not only save on labour costs and safety measures but also on electricity costs by running on stolen power.

Many discount retail brands and private labels of reputed department stores have thrived because of the existence of such sweatshops. Such factories are present since a long time, and there are reasons for them being accepted as the norm. One of the primary reasons has been the small volumes per style that any domestic retailer or brand needs to source per season. It is not possible for even a medium-size factory to service that volume of demand, because this is just not efficient and hence commercially unviable

dependence on these. Large segments of domestic consumers are still shifting from tailor-made to ready-made clothing and always crib about the premium that they are paying for ready-made garments as compared to tailor made. They all want ready-made branded clothing but are still not ready to pay for it. Hence, the brands and retailers, who are trying to pull more and more consumers to their stores, are forced to look for the cheapest sources of supply and end up dealing with these sweatshops.

The recent imposition of excise and rising costs of fabrics haven't made life easier for the retailers. Moreover, the competition is increasing amongst organised retailers who are trying to

seems that the pressures of competition, hunger for market share and lack of any serious scrutiny by authorities or consumer forums are leading them in a completely different direction.

I sincerely hope that the organised retailers will not wait for repercussions of a scandalising headline to force them to change their sourcing style. I will be very happy if one of the players takes a stance and positions itself as "an ethical retailer" and promises to source only from compliant factories. This would be a positive nudge for the Indian apparel industry and will force all other serious retailers to clean their act on this front, saving the industry from potential embarrassments in the future. 