Dressing The Indian Masses:
Unlocking Economy And Value Fashion Retail

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The India's fashion consumption story has taken-off for newer heights due to demographic, cultural, psychographic and behavioural changes among Indian consumers. These changes are altering the size as well as shape of the market. Over the next 5 – 6 years, the fashion market is expected to grow nearly ~2 times with women's and kids segment growing at an accelerated pace particularly in apparel and footwear categories.

The aforementioned macro changes will also have an explicit impact on economy and value fashion segments. Over the next 5 – 6 years, both these segments will grow faster than the overall market, resulting in increasing their share to 60 - 65% - an increase of ~5% from current market share.

For retailers, this growth demands a renewed focus on their strategy. The renewed focus will help retailers in offsetting the new challenges that they are set to face. In this chapter, Wazir has identified 3 such challenges. Further, considering these future challenges, Wazir has also suggested a growth-enabler to offset each challenge.

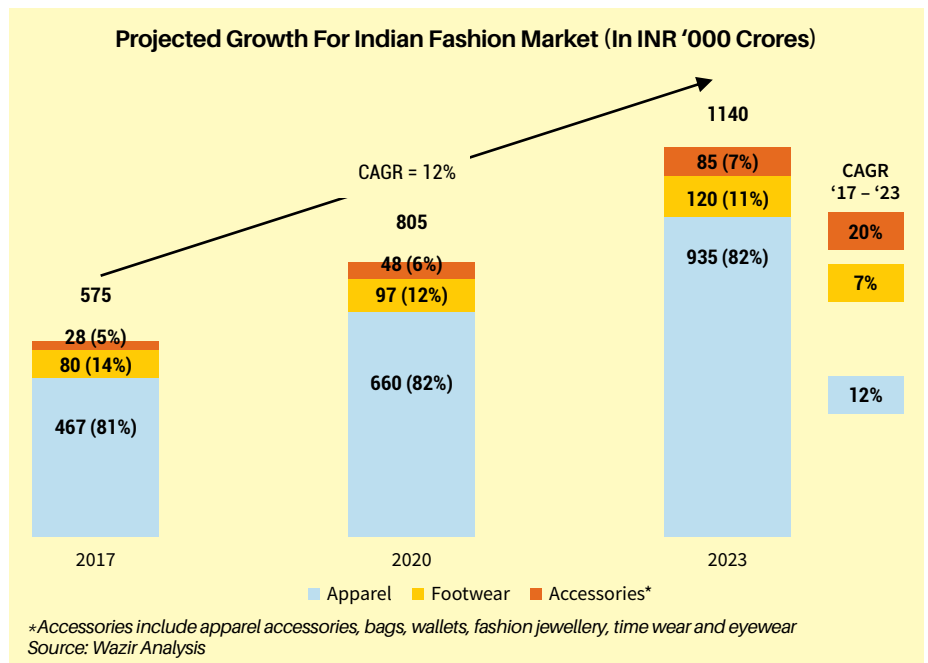## EVER CHANGING | EVER EVOLVING | EVER CHALLENGING

These words are best suited to Indian consumers whose fashion preferences are constantly changing. The fashion preferences which were deeply rooted to immensity and richness of Indian culture are now evolved to more refined and globally on trend fashion. Contemporary Indian consumers are seeking distinct fashion for distinct occasions. From a limited wardrobe a decade back, it now includes formal, semi-formal, casual, active, sports, ethnic, seasonal, leisure, party and many other types of fashion implying Indian consumers have become more discerning in their fashion needs and hence, more challenging to understand. This shift is due to the plenteous fashion exposure of Indian consumers.

The Indian consumers which comprises of the largest Gen Y population in the world with a median age of 27 years are more experimental by nature and more inclusive and intermingling with different cultures and social structures. They are more time poor and money rich having started to earn at a much younger age and hence more inclined to spend on better and more aspirational things in life. These cultural, psychographic and behavioural changes are also reflective across fashion product categories namely apparel, footwear and accessories.

With India's economy expected to grow at almost 7 – 8% CAGR over the next decade, the per capita income will also increase. Increasing wallet sizes will result in consumers with more money to spend and greater enthusiasm for fashion. The per capita expenditure on fashion is expected to reach INR 7,835 by 2023, rising from INR4,290 in 2017. Therefore, the total Indian fashion expenditure is expected to grow to INR 11.4 Lac Crores by 2023, making India one of the most conspicuous spots in the global fashion market.

Further, not just the size of the market, but its construct will also change. In apparel and footwear, women and kids segment will grow at an accelerated pace. However, the dominance of women segment in accessories will continue to exist.

Projected Growth For Indian Fashion Market (In INR '000 Crores)

CAGR = 12%

2017 — 575
- 28 (5%)
- 80 (14%)
- 467 (81%)

2020 — 805
- 48 (6%)
- 97 (12%)
- 660 (82%)

2023 — 1140
- 85 (7%)
- 120 (11%)
- 935 (82%)

CAGR '17 – '23
- 20%
- 7%
- 12%

■ Apparel ■ Footwear ■ Accessories*

Accessories include apparel accessories, bags, wallets, fashion jewellery, time wear and eyewear
Source: Wazir Analysis

NEW INDIA WITH A MODERN OUTLOOK

CULTURALLY
- ▶ Less rigid and likes discovering new brands
- ▶ More aware and engaged with brands
- ▶ Seeks newness that reflects in fashion preferences

PSYCHOGRAPHICALLY
- ▶ Aspire for better brands and international fashion
- ▶ Open to spending on self – discretionary spending
- ▶ Have it and then flaunt it attitude

BEHAVIOURALLY
- ▶ Spends more, saves less
- ▶ More confident of future success
- ▶ Confidence via brands
- ▶ Urban and well-travelled
- ▶ Increased trend awareness

Projected Market Construct Shift In Apparel		
Segment Share	2017	2023
Men	37%	35.5%
Women	35%	35.5%
Kids	28%	29%
Projected Market Construct Shift In Footwear		
Men	60%	56%
Women	30%	33%
Kids	10%	11%

Source: Wazir Analysis

The changes in the Indian consumers are explicit and so is the impact of these changes on the Indian fashion market. The maximum tremors of this impact will be felt across economy and value fashion segments which jointly forms the 55 – 60% market share. For pure play value and economy fashion retailers, this means a great deal because the aforementioned macro changes will drive the economy and value fashion market as well as give rise to significant challenges.

ECONOMY FASHION

Target Consumer: Aspirer

(INR 0.9 – 2 Lac Household Income)

It is based on the idea of "trading up" from the unbranded fashion.

It is targeted at consumers who are early or first time users of branded fashion.

Example: V-Mart, V2

VALUE FASHION

Target Consumer: Middle Class

(INR 2 – 10 Lac Household Income)

It is based on the idea of "trading down" or "smart buys".

It is targeted at brand buyers seeking fashion and quality at affordable prices.

Example: Pantaloons, Max Fashion
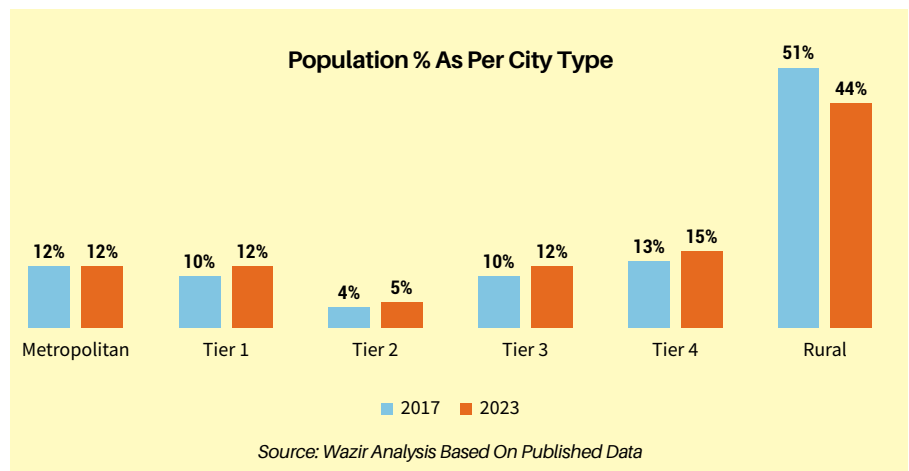*Source: Wazir Analysis*

The Present Case For Economy And Value Fashion

The story of urbanisation in India is different from rest of the world. The migration to urban centers in India, is not happening as fast as it happened in China and is not limited to a few large cities as it happened in South Asian countries like Thailand or Indonesia. In India, it is the tier 3 and tier 4 cities that are expected to see maximum population growth over the next decade. As a result, the working population is rapidly increasing across tier 3 and tier 4 cities. The working population has increasing income with a need as well as willingness to dress better.

Furthermore, the rural population is also transitioning up in income levels due to availability of manufacturing based jobs, expansion of agriculture into value added farm activities and government's rural employment schemes. As a result, urban lifestyles and services are increasingly being adopted with a combination of affordability in rural areas. This process of rural urbanisation or rurbanisation is converging rural consumption towards urban consumption pattern and NSSO rural consumption surveys are testimony to same.

Population % As Per City Type

City Type	2017	2023
Metropolitan	12%	12%
Tier 1	10%	12%
Tier 2	4%	5%
Tier 3	10%	12%
Tier 4	13%	15%
Rural	51%	44%

Source: Wazir Analysis Based On Published Data

Due to urbanisation, the tier 3 and tier 4 cities will begin to emerge as new growth engines for fashion retailers. These cities are currently in process of reaching a threshold level where they become suitable for the entry of these retailers. Further, rurbanisation has already changed the dynamics of ready-to-stitch vs ready-to-wear in rural areas. The rural fashion consumption which was ready-to-stitch dominated, need-based and lower price points skewed has changed to more ready-to-wear centric and aspiration driven. Though price sensitivity is still existing, but it has so far benefited the ready-to-wear segment only as ready-to-wear is cheaper than ready-to-stitch and rural consumer is well aware of the same. It is this relative cost gap between ready-to-stitch and ready-to-wear that has been fuelling the rural fashion expectations. Adding to these expectations is the convenience of trying out before purchase.

Together urbanisation and rurbanisation are creating a scenario where economy and value fashion market of INR 3.2 – 3.5 Lac crores in 2017 will grow to INR 6.8 – 7.4 Lac crores by 2023 at a CAGR of 13 – 14%. This growth will be attributed to many facets of urbanisation and rurbanisation, key amongst them being population movement, increased spend and RTS to RTW conversion.

Projected Shift In Indian Fashion Market (In INR '000 Crores)

575
316 – 345 (55 – 60%)
2017

1,140
684 – 740 (60 – 65%)
2023

Total Fashion Market: CAGR 12%

Economy And Value Fashion Market: CAGR 13 – 14%

Source: Wazir Analysis

Rural Fashion Cost Econimics

Shirts — Ready-To-Stitch

Ex-Mill Fabric Price	Fabric MRP	Price (2.2 M)	Tailoring Cost	Final Price
225	450	990	250	1,240
100	200	440	150	590
50	100	220	125	325

% Savings For RTS
+9%
-23%
-16%

Shirts — Ready-To-Wear

Ex-Mill Fabric Price	Price (1.8M)	CMT	Garment Price	Retail Multiple	MRP
225	405	80	445	2.8	1,358
100	180	60	240	2	480
50	90	50	140	2	280

Source: Wazir Analysis

Trousers — Ready-To-Stitch

Ex-Mill Fabric Price	Fabric MRP	Price (2.2 M)	Tailoring Cost	Final Price
275	550	688	300	988
150	300	375	175	550
100	200	250	150	400

% Savings For RTS
+18%
--8%
-18%

Trousers — Ready-To-Wear

Ex-Mill Fabric Price	Price (1.8M)	CMT	Garment Price	Retail Multiple	MRP
275	330	100	430	2.8	1,204
150	180	75	225	2	510
100	120	50	170	2	340

Source: Wazir Analysis
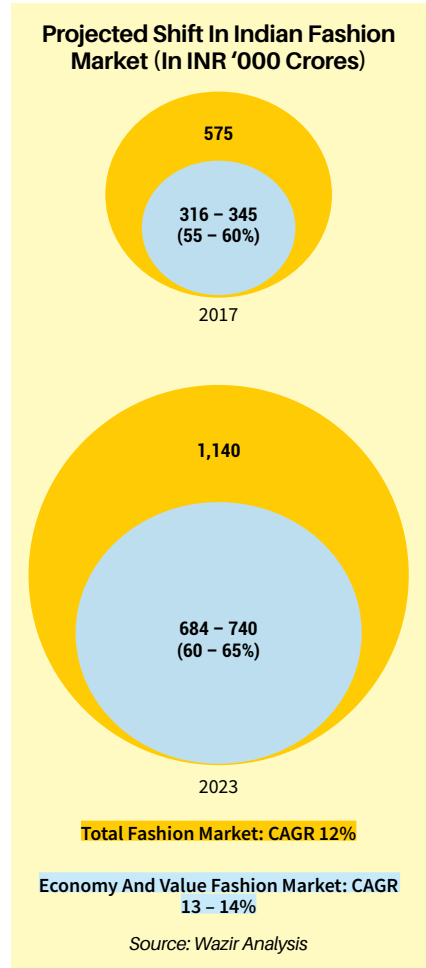
At present, there are few sizeable retailers that are serving the economy and value fashion market. Given the market size, this is the largest opportunity that is presenting itself for existing and new fashion retailers that can dare to think "Large Scale". The success of fashion retailers like Pantaloons, Max Fashions, V-Mart, V2 and few others is witness to this phenomenon and what has been realised is just the tip of an ice-berg.

Challenges And Growth-Enablers For Economy And Value Fashion Retailers

While the rise of economy and value fashion segment is inevitable, the emergence of new challenges is also unpreventable. For new as well as existing economy and value fashion retailers, the situation demands a

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renewed focus on their growth strategy. This renewed focus will help retailers in establishing truly differentiating core capabilities to create sustainable growth in the future.

Wazir has identified 3 key challenges that retailers are set to face. Further, considering these future challenges, Wazir has also suggested a growth-enabler subsequent to each challenge. The identified challenges and growth-enablers are as follows:

CHALLENGE 1:

Competition And Fashion Heterogeneities

While value fashion remains the playfield of select pan India retailers, the economy fashion is largely regional and unorganised retailers' play, as of now.

All pan India value fashion retailers have so far managed to grow faster than the market itself. This growth

was primarily being driven on the basis of targeted private labels, robust shopping experience, deep customer engagement, regular fashion freshness as well as continuous supply chain improvement without cost increase. However, all of them have now established stores in similar metro, tier 1 or tier 2 cities.

Pan India Value Fashion Retailers			
Retailer Name	Store Count (FY17)	Store Size (In '000 Sq.Ft.)	Revenue (FY17) (In INR)
Reliance Trends	330	8 – 24	5000*
Pantaloons	209	10 – 15	2552
Max Fashions	190	10 – 12	2048
Westside	107	17 – 18	1785
FBB	54	12 – 15	NA

Source: Wazir Analysis Based On Published Data
*Estimated

On the other hand, in economy fashion, regional retailers have established their strong foothold across different geographic pockets. These pockets are either high density areas in north and east regions or severely fashion underserved areas in north-east and other regions. These retailers have managed to hold the ground due to their in-depth understanding of local fashion preferences and relation based customer retention resulting in high customer traction and vast coverage. However, majority of these retailers have also undergone geographic expansion in similar regions like value fashion retailers in similar cities.

CHALLENGE 1:

Competition And Fashion Heterogeneities

GROWTH-ENABLER 1:

Geographic Expansion Based On Cluster Approach

CHALLENGE 2:

Diminishing Mid-Market Fashion Space

GROWTH-ENABLER 2:

Continuous Improvement In Value Offering

CHALLENGE 3:

Fast Paced Consumer Evolution

GROWTH-ENABLER 3:

Continuous Operational And Cost Improvements

Regional Economy Fashion Retailers				
Retailer Name	Store Count (FY17)	Store Size (In '000 Sq.Ft.)	Revenue (FY17) (In INR)	Coverage
V-Mart	141	8 – 10	932	North to East
CityLife	74	NA	350★	North to East
Baazar Kolkata	51	5 – 6	500★	East to North East
M – Bazaar	45	NA	345	East to North East
Bazaar India	44	10 – 12	NA	North to North East
1-India Family Mart	38	NA	148	North
V2	37	12 – 15	470	North to East
V – Bazaar	24	4 – 5	45	North to East
City Kart	23	8 – 10	150	North to North East
Citi Style	14	7 – 8	NA	North to East

Source: Wazir Analysis Based On Published Data   *★Estimated*

Fashion Market – Price Segmentation And Consumption Heterogeneity Level

Largely Homogenous

Highly Heterogenous

Men Shirts Price Range

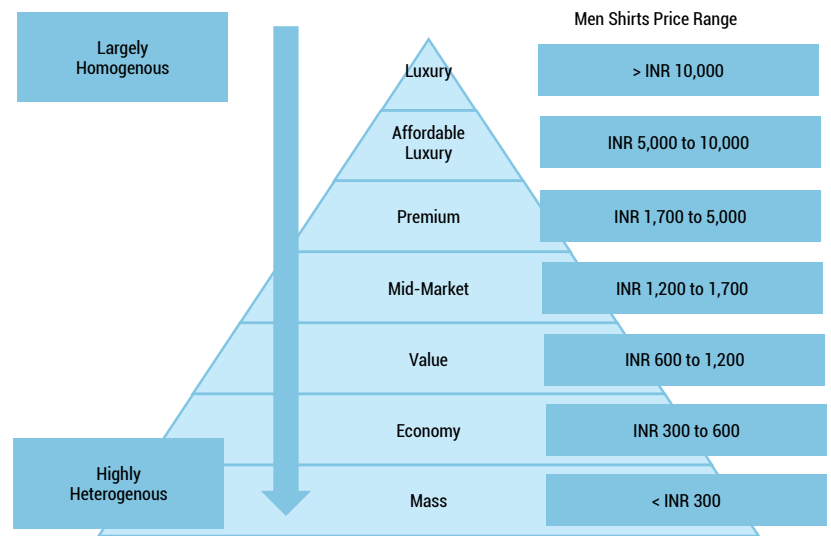| Luxury | > INR 10,000 |
Affordable Luxury	INR 5,000 to 10,000
Premium	INR 1,700 to 5,000
Mid-Market	INR 1,200 to 1,700
Value	INR 600 to 1,200
Economy	INR 300 to 600
Mass	< INR 300

Source: Wazir Analysis

The next level of growth can be either achieved via geographic expansion into new tier 3 and tier 4 cities or increasing the same store sales in existing cities. In both cases, it is important for retailers to understand that fashion consumption in India does not vary only on the basis of price and subsequent quality and fashion quotient attached. It also varies within fashion segments. The fashion consumption shifts from largely homogeneous to highly heterogeneous as we go down the price ladder.

At higher price points, fashion consumption is largely based on latest trends and target consumer segment is also more homogeneous in their fashion palate. However, as we go down, the fashion consumption become more skewed towards regional preferences and fashion palate becomes more heterogeneous. As an example, super premium fashion players will have lesser SKUs and more standardised range across the country than a value fashion player. Further, the heterogeneities can exist in terms of size, fit, fabric or style preferences across regions. Therefore, economy and value fashion retailers will have to carefully manage fashion consumption heterogeneity to avoid reaching a stage of over expansion leading to merchandising and operational inefficiencies.

Growth-Enabler 1: Geographic Expansion Based On Cluster Approach

For calibrated geographic expansion in new tier 3 and tier 4 cities and higher same store sales growth across exiting cities, economy and value fashion retailers require micro rather than macro perspective because these cities are scattered across regions. Further, having a one-dimensional viewpoint in that micro-perspective will not be sufficient to manage the fashion heterogeneities. The scenario demands the adoption of cluster approach, in which retailers will have to identify how one city cluster is different from the other cluster in a region.

Retailers will have to segregate cities on the basis of commonalities like size, colour, fit or fabric preferences. Hence, the retailers will have to constantly monitor store sales data and in-store customer behaviour to strategize and customise merchandise supply as per city clusters. At the same time, the retailers also have to ensure that the cluster formation is only to manage the local fashion palate, there will be share of merchandise which will remain constant across stores along with uniform store look and shopping experience.

Cluster Approach*

*Regional Figure
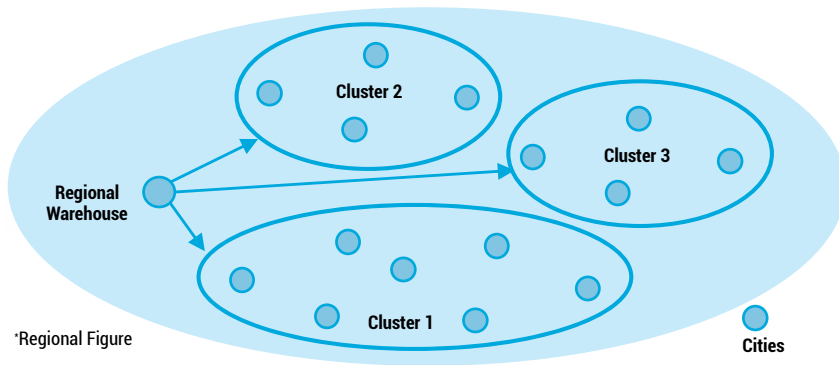
mid-market players in either economy or value segments.

Growth-Enabler 2: Continuous Improvement In Value Offering

While the success of economy and value fashion retailers is based on their ability to plug the relative gap between aspirations and income of "Aspirer" and "Middle Class" consumers, it is also important for them to create new differentiations for offering better value
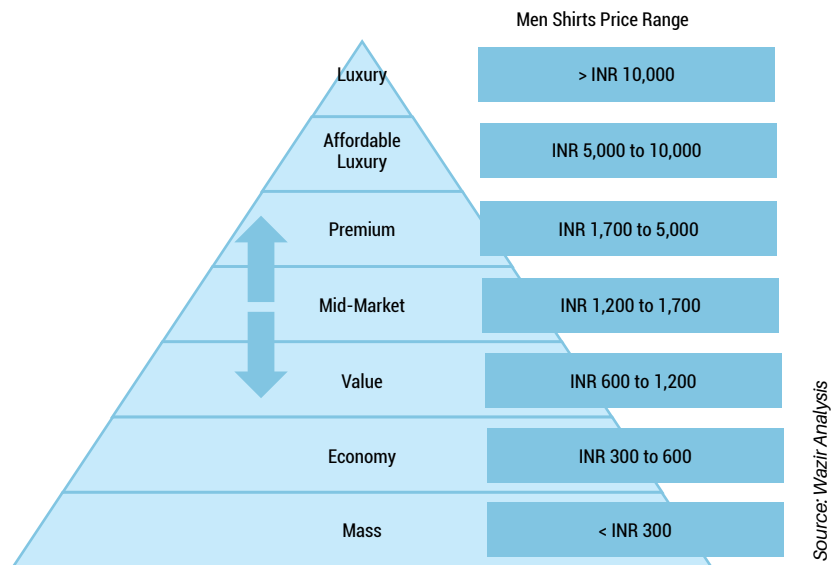
CHALLENGE 2:

Diminishing Mid-Market Fashion Space

While fashion market is expected to grow at 12% CAGR over the next 5 – 6 years, the growth across different fashion segments will vary significantly. This is due to the changing size of the target consumer segments. Also, not all consumer segments will strictly adhere to their fashion segments because the market is becoming increasingly polarised. This polarisation exists either in terms of being brand or price oriented. As a result, for players operating in premium or higher price segments, differentiating proposition will be distinct "brand promise and experience". On the other hand, players operating in value or below segments, differentiating proposition will be the distinct "fashion, quality and price balance".

It is the mid-market that will be left squeezed with the unique selling proposition of discounting. Due to discounting, these players are expected to miss on both "brand promise and experience" as well as "fashion, quality and price balance". Further, the value and premium fashion players will also try to recruit mid-market consumers
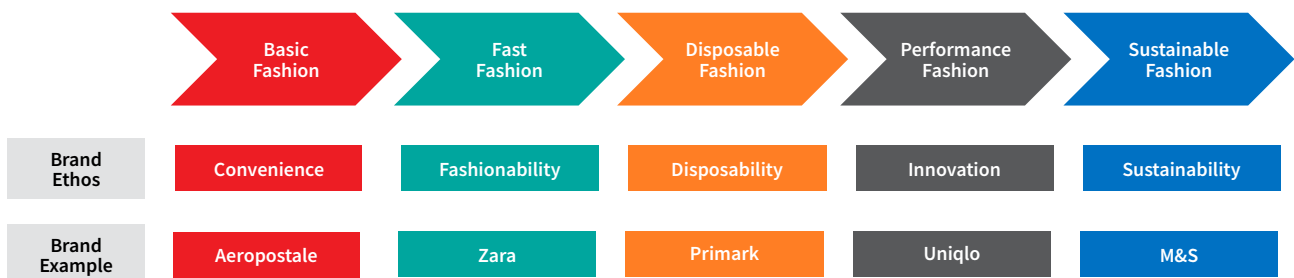
Fashion Market – Price Segmentation And Consumption Pattern

Men Shirts Price Range

	Men Shirts Price Range
Luxury	> INR 10,000
Affordable Luxury	INR 5,000 to 10,000
Premium	INR 1,700 to 5,000
Mid-Market	INR 1,200 to 1,700
Value	INR 600 to 1,200
Economy	INR 300 to 600
Mass	< INR 300

Source: Wazir Analysis

with marginal shifts in their pricing. The recent launch of shirts priced less than INR 1700 for MBO channel by many premium menswear brands and increasing range of shirts priced higher than INR 5000 in their EBOs is a testimony to same. However, the economy and value fashion retailers will have to continuously improve their value offer to offset any disruption from

proposition to consumers. With time, retailers will have to delink fashion and price to integrate fashion with aspects like convenience, fashionability, disposability, innovation, sustainability etc. This will help retailers not only in improving usability and perception value but also carving out new niches for themselves within economy and value fashion segment.

Fashion Spectrum Will Continue To Evolve

	Basic Fashion	Fast Fashion	Disposable Fashion	Performance Fashion	Sustainable Fashion
Brand Ethos	Convenience	Fashionability	Disposability	Innovation	Sustainability
Brand Example	Aeropostale	Zara	Primark	Uniqlo	M&S

Source: Wazir Analysis

CHALLENGE 3:

Fast Paced Consumer Evolution

The economy and value fashion retailers have fundamental back-end and front-end differences. These differences span across various operational parameters such as:

Parameters Type	Parameters	Economy Fashion	Value Fashion
Front-End	Merchandise	Market + Private Labels	Majorly Private Labels
	Sales Per Sq.Ft. (Annual)	6,000 – 10,000	8,000 – 12,000
Back-End	Gross Margin	30 – 35%	50 – 55%
	Rentals (% of Revenue)	4 – 6%	8 – 10%

Source: Wazir Analysis Based On Published Data

Despite all these differences, there is one common thing for both types of retailers and that is fast paced consumer evolution. With each passing day, the target consumers for economy and value fashion retailers are becoming more informed, connected, conscious and demanding. Retailers will have to constantly evolve as their target consumers are evolving. This evolution will span across upgrading the supply chain as per demand to control gross margins, to upgrading stores while tightly managing store costs, to upgrading the merchandise as per changing consumer needs to control sales per sq.ft.. Hence, continuous operational and costs improvements lie at the epicentre of retailers' evolution.

Growth-Enabler 3: Continuous Operational And Cost Improvements

The winners in the economy and value fashion retail will be the ones that have better control over the retail value chain including sourcing, supply chain, merchandising, store operations and customer management. Such retailers will have deeper insights to undertake actionable steps on driving reduced human dependence, predicting sourcing quantities, inventory management, cluster based merchandise allocation, store operations management and

much more. Retailers can drive these operational and costs improvements via:

Operational And Cost Improvement Drivers

Continuously Improve private label offerings (colour, size, fit, style)	Synchronised in-store and out-store customer engagement
Maintain overall margin breakup as per share and space across categories	Align store visual merchandising / space allocation as per category relevance
Optimise overall product offering as per market construct shifts	Align store design and staff behaviour as per brand promise
Develop long term relations with supplier for better price negotiations	Create supply space by investing in suppliers for best cost and delivery
Invest in warehousing capabilities for priority based inventory allocation	Automate the back-end processes like sorting, packaging etc.
Invest in digital capacities for cluster based merchandise allocation	Invest in front-end technologies for realizing customers full profit potential

Wazir believes that economy and value fashion retailers looking to scale-up their business could learn from these challenges and subsequently leverage the identified growth-

enablers. The market growth will support all ventures with clear growth strategy based on category, consumer, competition, channel, and cost structure analysis.