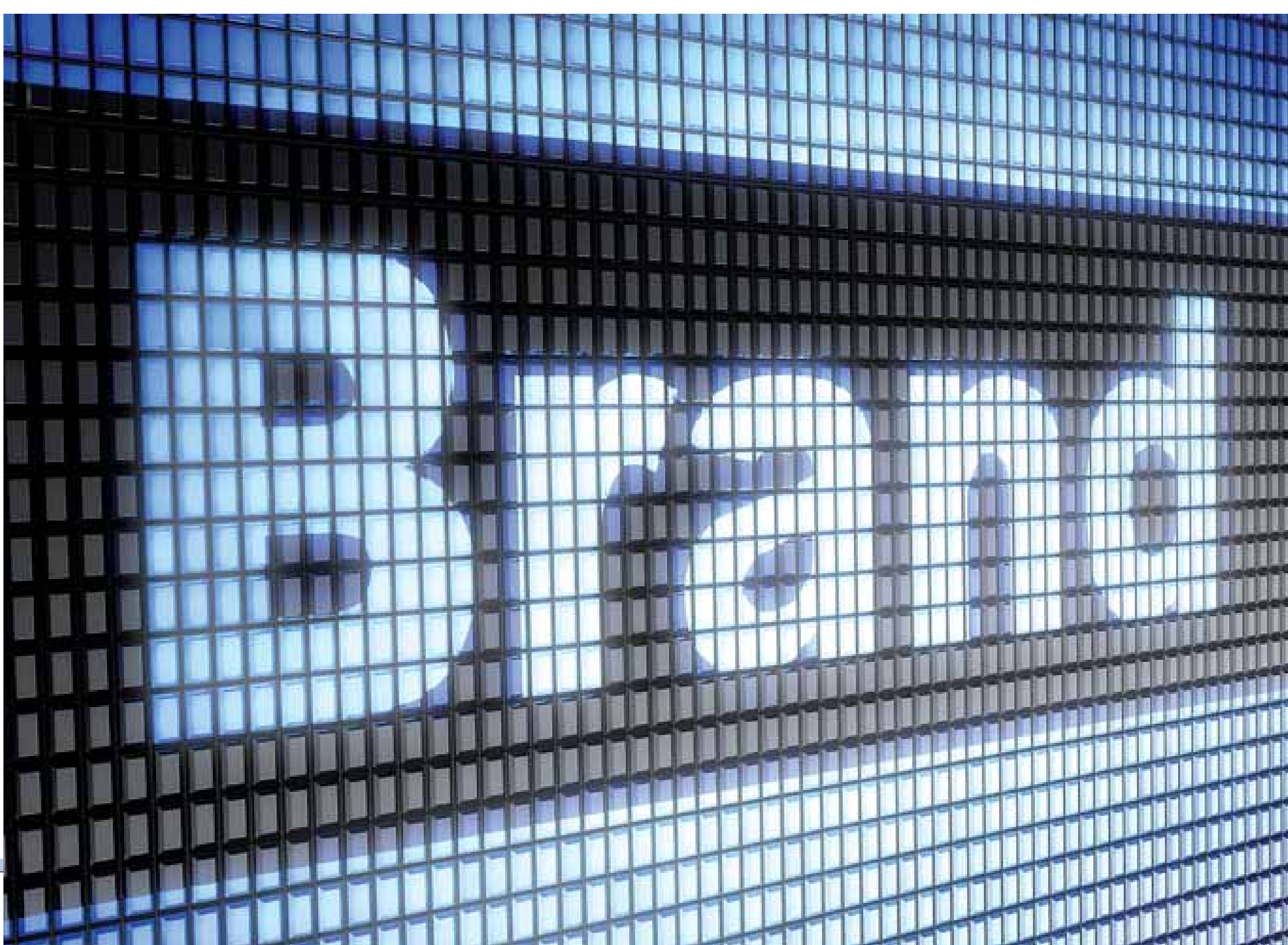
Brands, Consolidation & Economies of Scale

From the launch of the first few men's shirts brands in the early and mid nineties, the Indian fashion industry has come a long way; and today it boasts of an excellent mix of regional, national and international brands vying for consumers' attention and share of their wallets. The memories of pioneer brands such as Stencil are still fresh in the minds of many. Arrow's educational campaigns teaching Indian consumers the merits of a button down shirts may seem amateurish today but they created the long-lasting relationship with consumers who have made Arrow so stupendously successful today. While I still believe that the Indian market doesn't have enough brands on offer but I am quite satisfied with the developments over the last 15 years. The most satisfying has been the boldness and courage with which numerous Indian companies have launched their brands across segments. Without fearing the arrival of power brands from different parts of world, the Indian fashion market players have shown a lot of grit to create fairly successful brands within their chosen niche. Let us compare this with another excellent market - QSRs (Quick Service Restaurants) wherein the early arrival of McDonald's has stopped any Indian player from even thinking of launching a burger chain. The only competition to McDonald's is other MNCs such as Burger King and KFC. No Indian company has dared to challenge McDonald's in its domain while Indian



fashion brands have been challenging the world's best across categories.

There have been many successes as well failures in the industry but all in all the progress has been quite impressive. In between from 2008 to 2010 there was a bit of lull in terms of entry of new Indian players and launch of new brands. However, if the trends of last 18 months are to be believed, there seems to be a lot of activity on this front once again. One of the major reasons has been the slowdown on the garments exports side and the dwindling realisations from exports. Many garment exporters and textile players have now started looking at the domestic market much more seriously and many have launched their brands and others are working on similar plans to join the domestic bandwagon.

I am excited to see this but am also concerned about these developments. Many of these players are not realising the big changes that the Indian domestic fashion market has gone through over the last 10 years. It is no more a basic market wherein anything sells. Consumers have evolved and competition is serious and costs are prohibitive. It is not difficult to sell the first few thousand garments under any label or set up few stores in few cities under any signage. The challenges are more once the business grows beyond the initial stage. The entry barriers are really low in this business but the hurdles in the way of growth are really high. We have seen so many excellent brands faltering the moment they hit ₹50 or 100 crore of business as the promoters weren't prepared and had not anticipated the challenges that scale brings along.

It made me think and I dug deeper to look for the reasons for that have been stopping Indian brands from growing really large and move to the next orbit. I found numerous reasons but the most fundamental has been the original promoters' sense of achievement on reaching a certain landmark like ₹100 crore in sales or 200 stores or something like that. Since most of the brands are launched by first generation entrepreneurs or by exporters who had no experience in domestic market, the sense of achievement is quite understandable and more so in the eco-system wherein there aren't many brands that have achieved much larger numbers.

Another reason that I believe stands in the way of achieving scale for some of these brands is the lack of quality professional management teams. This too is quite an understandable cause because which serious professional would like to risk his career with a sub ₹100 or 200 crore brand wherein the promoter is still fully involved in each and every decision. More so when the same professional now has the option to work with much larger Indian or international companies with much larger scope and much lesser or zero interference.

This brings me to the point wherein I reckon that there is a case of consolidating many Indian brands under a single umbrella of a fashion house on the lines of say a Liz Claiborne or Jones Apparel or Miroglio or Kellwood. Each of these fashion houses have anywhere between 6 to 40 brands in their portfolio. While the brands are managed independently, certain functions such as sourcing, real estate, finance and IT are managed centrally. This not only gives these companies the major economies of scale to negotiate better with the vendors of all kinds of services and goods but also allows them to attract best talent from the industry to manage the larger scale of the consolidated business. The power of unity of numerous brands is also wielded

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while buying media for advertising various brands. The ups and downs of various consumer segments are also leveled out by having so many different brands. While some may falter in a season, the others do well to make up for the overall numbers. From the investors, whether stock exchanges of private equity, these consolidated businesses are a far better bet to count on versus a single brand business that is rightly seen as very risky.

In India we already have fashion houses such as Madura and Arvind from the very start of the industry, and Genesis and Reliance brands have joined in lately. The companies such as Raymond have been adding brands organically as well as inorganically to build their portfolio. However, I believe now is the time for a new player to walk in and consolidate many Indian brands in the range of ₹50 to 200 crore under one umbrella and leverage their unity to create a highly efficient and profitable, large and scalable fashion house. The timing is excellent as many such brands are hitting roadblocks and struggling to move beyond a certain scale and thus the promoters may be open to discuss possibilities of selling out. There is another set of brands wherein many PE funds had made investments during heydays of 2006 -2007 and are now desperately looking for exits. They are finding primary markets unwilling to offer a way out and also not finding other PE players willing to let them off the hook. Even the strategic investment by larger fashion houses is not looking possible as these houses are busy growing their own brands and not so flush with cash to make acquisitions, even if the valuations are attractive.

The way I believe it can work is that a team of seasoned professionals can come together, to launch holding company and invite various brands to offload their ownership of brands to this company. In return the brand owners should be offered shares of the consolidated company. That means instead of owning 100 per cent of their own brand, the promoter can have a certain percentage of this consolidated entity depending on the size and value of the brand they brought in. However, the key will be to make all these promoters agree to let go of the management control of their brands. Technically speaking they are selling their brands fully to another company in exchange of stock and not cash. If this holding company is able to bring in six to eight brands with a combined revenue of more than ₹500 to ₹700 crore than it will be all set to move to the next orbit. This proposition is certainly better than trying to launch new brand(s) in today's environment wherein the initial burn can kill the brand in no time. Also, it is certainly better than creating a portfolio of international brands which eventually will still be owned by principals. Won't it be much more exciting and fulfilling to create a billion dollar company comprising all indigenous Indian brands as compared to opening stores for foreign brands and letting them hawk their aesthetics at obscene prices. I am quite hopeful that some of the very successful fashion industry professionals will take up this opportunity instead of looking for the next better paying job with another MNC or large business house. BoF

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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.