

india, outside in

Over a decade ago, when the first structured concept notes were addressed to European and American companies about the opportunities in the Indian consumer market, the pitch was new, the opportunity was bubbling and path looked fresh.

Now, the pitch is well-practiced and heard from not just consultants but entrepreneurs themselves, several firms have tried to tap the opportunity and the path is littered with half-dead business plans!

During the late-1980's and early-1990s, when the first foreign consumer brands started coming into the market, what drew them in was the image of hundreds of millions of Indians eagerly waiting to burst upon rows of shelves filled with their products.

Several years on, the image seems to have evaporated – so have millions of dollars in expenses for some companies. And there don't seem to be too many more foreign brands and retailers in India than there were ten years ago.

Well, the reality is that, despite the hype the foreign brands' boom in India never really happened. While a number of companies showed interest, not many actually entered.

You could blame it on policy barriers raised by senior government officials who proclaimed that there was no need for India to learn retailing from foreigners. You could blame it on domestic, regional or global politico-economic uncertainty.

Or just blame it on the investment magnet of the world, China, which has simply sucked up a large portion of the investments made in Asia. Even now, through bilateral frictions, health scares etc., China remains red-hot. Inward investments have remained consistent. Despite manufacturing job-loss protests, imports from China into the western markets march steadily upwards.

Even a comparison of country-specific investment funds shows that while India funds are trading at a discount to their value, The China Fund is trading 25% above the value of the fund's holdings.

But, at the beginning of 2004, the India-buzz seems to be back. It's a confluence of factors – each taking its own time – collectively growing into critical mass for change. India seems to be back; still tentative, but definitely back on the agenda.

Fund, ticker	Investment area	Price per share	Fund Value per share	Premium / Discount of Price over Value
The China Fund, CHN	China	\$33.75	\$27.01	25%
India Fund, IFN	India	\$19.93	\$20.45	-3%
The Saffron Fund, SZF	India	\$8.95	\$9.50	-6%

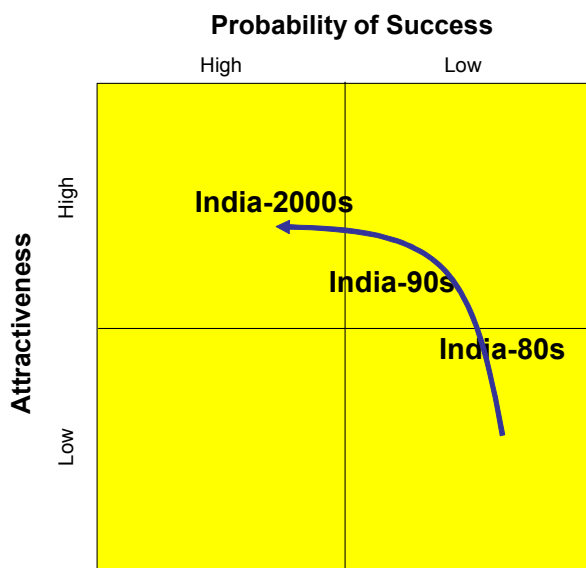
The Market from Outside

For once, there is a realisation among the foreign brands that, once you do proper research, the market size looks a lot smaller than estimated earlier, but is still big enough. Consumer products companies and fashion brands are now looking at potential market sizes of a few tens of thousands (for premium brands) up to possibly 50 million, as a realistic starting base. Further, it presents the promise of significant growth with all-round growth in prosperity.

Within this market, the economic fundamentals are sounder than earlier. GDP growth is looking better than projected, a smart case of underselling and over-delivering. Foreign exchange reserves stand close to US\$ 100 billion, of which US\$ 30 billion grew in 2003 alone.

Industrial growth is diversified, with new competitiveness in sectors as diverse as health & pharmaceuticals, information technology, the automobile industry, business process outsourcing, telecommunications, housing & construction, bio-technology and, not the least, in textiles. This is obviously an engine for economic prosperity all round, which means more individuals and families with money to spend.

In the early to mid-1990s, western companies looked at the Asian economies for additional growth. Compared to India, countries such as South Korea, Taiwan and even Thailand proved to be more attractive due to higher incomes and better infrastructure.



While some of these are still attractive first choices for many brands and retailers, from some India at this stage presents a better opportunity – early entry into the market, and a chance to shape the competitive landscape.



In terms of sheer numbers, India's potential has always been clearly visible in the long term, but now the economics are beginning to make sense for initial exploration and early entry activities.

Negative Perception as Supply Base

Prior to the 1990s, India has been associated with all the third-world images that you can conjure up. Fact and imagination have blended to create an unpalatable business reality.

You might wonder why it would matter to a retailer or brand looking to source from or sell into a country. It does, simply because the retail business is made up of individual people who are prompted not only by rationality but by emotion.

The designers and buyers who create product ranges like to visit places that are exciting and appealing – think New York, London, Paris,

Mauritius, Kuala Lumpur, Colombo, even Hong Kong and Bangkok. Travelling is easy and relatively hassle-free. “Fast-paced, exciting, flamboyant, exotic” are some adjectives that come to mind. Doing business here is a pleasure, even in this mind-boggling complexity of the fashion business.

Other centres that are not as appealing don't attract the buyers – they are used as manufacturing outposts, and monitored by a lower-profile technical team from a buying office, or an agent. They lose out in terms of new products, in terms of value-addition, and in terms of share of mind.

Of course, practical constraints such as production capacity, quota, and costs matter – that is why these unglamorous centres do have business. But you can bet that, given a choice, the buyer would like to buy from somewhere else, to where he or she can travel.

Similarly, retail managers are generally risk averse, and like to move in packs – where there are some brands, more come in and create a mutually reinforcing business environment.

They create an environment of opportunity for their suppliers, too – not just for quality finished goods, but raw materials, trims and accessories, even logistics and other service providers.

This virtuous cycle has already begun for the Indian fashion and retail industry, but is not very visible to most foreign retail brands and their suppliers. In their mind, they carry a picture of a certain level of capability, which has not been updated.

In fact, I remember visiting a store in Delhi along with a senior European retail executive when he kept asking if the fabric, buttons, labels and bar-coded hang-tags were produced in India. When the usual visits are limited to carrying specification packs to factories and getting quotations only on those, there isn't much chance of developing a fresh picture.

Then, again, several buyers have been attracted to India's wide ranging capabilities but have been badly burned in their business transactions.

Some time ago, I met with the head of apparel buying for a large European retailer – he tossed and turned products from several factories, obviously not interested in looking at anything seriously. About 20 minutes later, he gave up and said, "I don't really want to buy anything from India – Indian suppliers can do a very limited product range, quality isn't always good and the shipments are always late."

I inquired about his previous buying experience with India, and discovered that his last deal was in 1992, and he has never set foot

in India again. Much as we might present statistics and facts about the developments in the Indian textile and apparel industry, a personal injury early in his career has left a deep scar that obviously influences this gentleman's buying decisions which are worth over €300 million in global apparel sourcing.

Another instance that comes to mind is a series of sessions with a US\$ 3 billion retailer, to analyse 40 countries as global sourcing options for them. On factual evaluation of several short-term and long-term factors, India appeared high on the list for a number of products for this company. However, five years later, their total sourcing from India remains under US\$ 10 million.

Among other comments, one which sticks in my mind is: "I've always had very poor experiences with India – in an order of 10,000 pieces, maybe a few hundred will match the specifications." And another: "I don't know why the garments always smell! Even when I am in our stores, I can tell which garments have come from India, just by their smell." Exaggeration? Maybe, but certainly based on reality. And I don't believe we even got around to talking about any infrastructure or macro-economic issues.

Buyers are human beings – they want to buy from a supply base that is pleasant and reliable, from a centre that is fun to travel to. Given a chance, they will work with such a

supply base again and again. And depending on the skills, they will place their better and more value-added products there, too.

Without creating too much of a controversy, dare I say that Delhi's US\$ 2+ billion apparel exports result from the combination of sheer selling entrepreneurial zeal, manually-skilled labour, and weekend trips for the buyer to the Taj Mahal and Rajasthan.

Imagine, then, even without any major change in macro conditions (given the already improved highways to Jaipur and Agra!), if a set of Delhi-based companies can match their internal performance against the best suppliers that their buyer has, what the results might be.

Poor quality practices are certainly deep-rooted, too, and need to be tackled systematically. A quality consultant working with a mid-sized exporter recently remarked in despair, "The company needs to rip out their current way of working, and maybe even provide VRS to several of its executives, if it wants to survive beyond the quota phase-out."

Even buyers who express confidence in the Indian supply base (such as Gap which reportedly is sourcing over US\$ 500 million from this region, or a little under 10% of their total sourcing), have anywhere between 40-70% of their people here focussed on in-line and post-production quality issues.

Until this ratio shifts towards more people being allocated to product development (which can only happen if the inherent confidence in quality improves), the growth rate of the industry will remain below the true potential.

Small production capacities are the other major problem, especially for larger customers. As a result, despite all the talk about compliance norms, people at some of the largest buying offices acknowledge that their orders could occasionally be produced on subcontract in sheds that would fail every test of health and safety that these offices claim to impose.

Compare this with what a senior professional from one of Hong Kong's largest apparel companies said: "Indian industry looks like a formidable competitor, the day it decides to wake up."

Another comment, this time from a Singapore entrepreneur: "The Indian garment industry can go far, but for some reason, people here don't really want to work in partnership with others."

Can the industry make that change?

Brighter Side:

Better Image and Cultural Infusion

The picture is not completely bleak – and much of it has to do with “image”, sometimes completely unrelated. And the image right now is a lot more positive than it has been for a long while.

For one, since the late-1990s, “Indian” has begun to equal “Intellectual”, mainly credited to the software professionals. While the Indian doctors, the professors, the management consultants and the investments bankers have lived overseas much longer, they have largely had to fit into the local (western) form and customs.

On the other hand, the techno-geeks have travelled to the west for relatively short stays and have not had time (or the need) to fit-in. They’ve been “Indian” and yet delivered superlative results.

Thus, the ultimate accolade from popular culture is the presence of super-engineer Asok in the hugely popular cartoon strip *Dilbert*, compared to the grocery store owners Apu and Sanjay in the older early-90s cartoon, *The Simpsons*.



Image copyright is held by producers of *Bombay Dreams* (used for illustration only)

The next wave of re-programming of “image” is happening through entertainment and culture.

The mystical east has always appealed through films like the Merchant-Ivory’s productions, but recent years have drawn further attention to Indian creative talents or influences in the mainstream – whether Shekhar’s Kapur’s *Bandit Queen* and *Elizabeth*, or the Australian Baz Luhrman creating *Moulin Rouge* as an Indian-style musical with Hollywood superstars. Mira Nair’s *Monsoon Wedding* and Gurinder Chadda’s *Bend It Like Beckham* have become surprise hits, not mainstream yet reaching a broader audience than earlier Indian or Indian-themed films.

Selfridges held a Bollywood festival for 23½ days, complete with Indian street-side food and street fashion. Andrew Lloyd Webber’s London stage production, *Bombay Dreams* has now spread across the Atlantic, too.

<p align="center">Hard Nosed Facts plus Mystique <i>(News items on USAToday.com referring to India)</i></p>
<p>Authors Movies SARS, AIDS, population Communal riots, train wrecks Pakistan, Kashmir Kalpana Chawla China Security Council BPO Opportunity BPO Threat Software Pesticides in Cola Arjun Atwal, professional golf tournament</p>

On the spiritual front, *Time* has done a cover story on meditation and yoga – it’s not that the phenomenon is new, but the size and spread of it is suddenly visible and high profile.

Does all of this have any impact on the Indian fashion industry? I believe a major one, though indirectly – India, and things Indian, are becoming part of the mainstream everyday consciousness. So long as these positively reinforce each other, and are supported by tangible business performance, it presents a clear business opportunity to attract western companies into India for sourcing or for marketing partnerships.

How is the fashion industry reacting? Well, for one practically every business person worth their salt is busy upgrading systems,

processes and people in their organisation. Secondly, the growth of organised retailing is helping to create unparalleled visibility – large retailers, carrying a wide range of merchandise produced in India are the best showroom India’s manufacturers can have locally.

And the Final Word

"I'm a person, not a fashion statement," says Parminder Nagra, star of *Bend it Like Beckham*. "It honestly makes me cringe if people think it's trendy right now to be Indian, and tomorrow it's all over."

I agree – India, the Indian market and Indian industry will need to get beyond being a fashion statement that slips out of people’s minds once the fashion peak is over. And the good news is, I think, that it’s beginning to grow into something more than last year’s fashion statement. I believe that even when the so-called “India look” dies down, the Indian fashion industry’s chances of growth and influence are strongly sustainable.

Devangshu Dutta is a retail and fashion industry professional. Devangshu has had the chance to work with companies globally and across the entire supply chain from consumer back to raw material, as a manager and as an entrepreneur.



Outside his work, Devangshu contributes time to teaching at premier academic institutions, and also through articles in various global and Indian publications. (More information on website: www.3isite.com)