

**SECTOR:
RETAIL, LIFESTYLE & LOGISTICS**

**SECTOR OVERVIEW:
March 2013**

**CONTACTS:
Retail, Lifestyle & Logistics**

In this quarterly sector report we focus on India's fashion industry, exploring the changing consumer trends in the country and avenues for market entry. In the framework of London Fashion Week, we recently welcomed Indian fashion designer Rocky S to speak at an event in which he shared his valuable insights on India's fashion and retail market.

I would like to thank R S Roy and the Images Group for their insightful contribution to this quarterly report. They recently shared with us a piece focusing on the global fashion brands in India, implications of FDI reform and other regulations, and opportunities for UK fashion designers. Below you will find the column and links to other resources by the Images Group.

Indian retail will continue to expand, with forecasts of it reaching US\$ 800 billion by 2016 at a CAGR of 12% growth. Meanwhile, the apparel and accessories market is growing at a healthy annual rate of 15%. Recent reforms to FDI, which now allow 100% FDI in single-brand and 51% in multi-brand retail, will further catalyze growth. This and other growth drivers are discussed in a report done in partnership by the UKIBC and Ernst & Young which will be launched very soon.

We hope that you enjoy this quarterly sector report and invite you to send us your comments. For more information on UKIBC's programme of work in the Retail, Lifestyle and Supply chain logistics sector, please contact:
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In Focus: India's fashion industry

How can UK Businesses join the Indian Retail and Fashion Market: in conversation with Rocky S

Last month, in cooperation with Addleshaw Goddard, the UKIBC hosted renowned Indian designer Rocky S, who was visiting London Fashion Week, for a conversation on India's fashion industry. The event was a fantastic opportunity for attendees to learn more about India's consumer trends and discuss avenues to enter India's fashion market.

Changing trends

In his opening remarks, Richard Heald, CEO of the UKIBC, pointed out some of the trends that he observed during his latest trip to India. He mentioned how the Louis Vuitton store at New Delhi's hotel The Oberoi had once reportedly become the brand's most profitable store worldwide by square metre. Why? Possibly because of India's different (and evolving) purchasing habits. As [Louis Vuitton](#) has experienced, and many more have followed, India is a country of gift giving. It is not rare to see families shopping large quantities of LV accessories to give as presents to their relatives.

A key trend is the rise in disposable incomes. While before most people only had a shopping budget for the Diwali holiday season, nowadays it is common practice to simply go out and shop. Every city has different tastes, but as Rocky S explained, Bollywood has the power to connect the country. For India's emerging middle classes, styles and products endorsed by Bollywood have become aspirational.

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Another trend that was highlighted was that fashion influences are no longer just one way, or West-East. As western audiences become more aware of Indian fashions, they might soon be curious to buy them and wear them too. In a promotional trip to India, socialite Paris Hilton requested wearing Indian fashions throughout her visit. [Rocky S was said to have been her favorite.](#)



Entering the market

As was explained by Mike Duggan, Corporate Partner at Addleshaw Goddard, retail companies entering India often take different approaches based on their specific needs and product lines. Some might go via the franchise model, as is the case for The Body Shop or WHSmith, while others opt for JVs.

One of the greatest challenges for fashion firms going to India are the country's restrictive import duties. In fact, some firms are going as far as absorbing the cost of these high duties to be able to offer their products in India at the same prices as they do in other markets. To curb high import tariffs, some have also opted to manufacture in India, using local inputs. However, it was pointed out that for some brands their strength lies in selling the Made-in-England brand, so the option does not work for all.

British products are highly regarded in India. At the event, Rocky S expressed surprise that more British brands weren't already there. Some of his tips were: you have to be aggressive, do your research and educate customers about your brand. Nowadays there is increasing retail space in malls suitable for luxury and fashion products, and online business is also catching up quickly.

IP protection remains a concern, however, as Rocky S mentioned, this is a concern in many different markets. In India, legislation is in place in regards to IP. In India, legislation is in place in regards to IP and there has been significant progress on this front.

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Value-conscious

It is a well-known fact that Indian consumers are acutely value-conscious, so pricing strategy is a big concern for retailers. To tackle this, Rocky S has found the perfect mix by launching two brands: a luxury wear brand for high-end consumers and a less expensive brand selling affordable accessories. This helps in reaching out to all audiences. Rocky S has his own brand stores and has also established a successful partnership with [Shoppers Stop](#), a department store selling his line of bags across the country.

About Rocky S

A well known fashion name, [Rocky S](#) is the first designer in India catering to both celebrities and ordinary customers. His experience as costume designer for major Bollywood films has added to his popularity. He has styled Bollywood celebrities including John Abraham, Bipasha Basu, Kathrina Kaif, Shilpa Shetty and Priyanka Chopra, and has also dressed the likes of Beyoncé Knowles and Paris Hilton. Rocky S is planning to launch his line in the UK in 2014 and use as a platform for the European market.

New retail report: Road to India's consumer market

A recent report produced in partnership by the UKIBC and Ernst & Young discusses the road to success in India's thriving consumer market. With insightful sections on the Indian consumption landscape, regulatory environment, retail channels, and practical steps for new entrants, this report will inform retail companies at various stages of their India strategy.

The following growth figures in India's retail sector are highlighted:

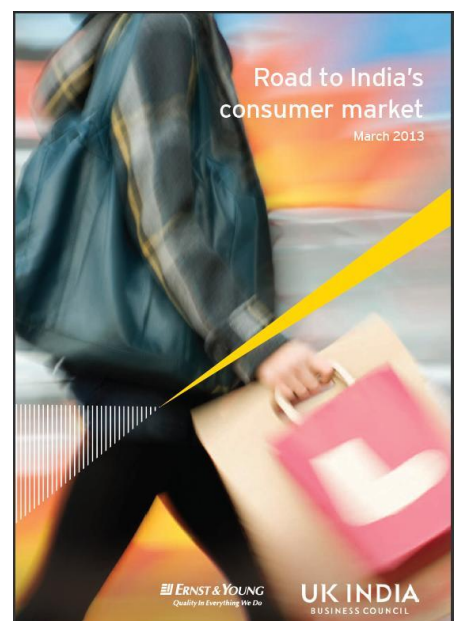
- In 2012, India's retail sector was valued at US\$ 500 billion and was among the largest employers in the country
- By 2016, Indian retail is likely to grow to US\$ 800 billion, at a CAGR of over 12%
- India is expected to become the world's fifth largest economy in terms of consumption by 2025

Implications are huge for consumer products. While food and groceries remain the largest expenditure for Indian wallets, apparel and accessories are the second largest spending category in the retail sector.

As the report explains, growth in the organized retail market will be driven by an increase in consumption of value added and imported products and a growing demand from Tier II and Tier III Indian cities. Retail growth will also receive a huge boost following last year's landmark reforms in FDI: 100% FDI now allowed in single-brand retail, and 51% in multi-brand.

The report provides a clear breakdown of India's retail and wholesale channels, useful tips and a decision-making roadmap for new entrants.

To consult the complete report, please contact Tara.paniwani@ukibc.com



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Global Fashion Brands: Destination India

By R S Roy, Editorial Director, Images Group with inputs from Third Eyesight
www.imagesgroup.in

With the rollout of the new policy by the Indian policymakers allowing FDI in multi-brand retail, a number of international brands are looking to grab a slice of the Indian fashion retail pie.

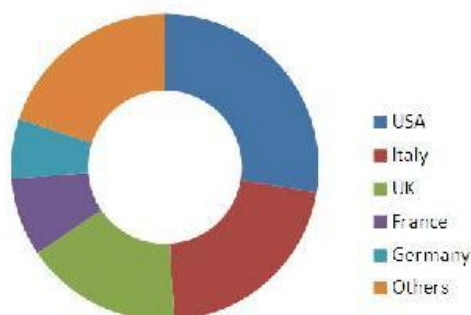
Since the onset of reopening of India's economy in the late 1980s, fashion is one consumer sector that has drawn the largest number of global brands and retailers. Notwithstanding the country's own rich heritage in textiles the market has looked up to the West for inspiration. Even today, international fashion brands are perceived to be superior in terms of design, product quality and variety.

International brands that have been drawn to India by its large and able-to-spend consumer base and the growing economy have benefitted in attaining quick acceptance in the Indian market. Given their high desirability, most international brands have positioned themselves at the premium-end of the market, even if that is not the case in their home markets. In addition, Indian companies – manufacturers and retailers – have been more than ready to act as platforms for launching these brands in the market and today there are over 200 international fashion brands in the Indian market for clothing, footwear and accessories, and the numbers are still growing.

Winds of change with FDI reforms in retail

After the Indian government opened the multi-brand retail sector to FDI and eased the rules for single brand retail in September 2012, numerous global brands are vying for entry. Some of them will likely opt to set up wholly-owned subsidiaries controlling the entire chain of activities, source-to-store.

**International Fashion Brands in India
Country of Origin (End 2012)**



Third Eyesight, 2013

Source: Industry Research by Third Eyesight
Note: This chart only includes apparel and accessory brands, and excludes other lifestyle product companies such as fragrances, luggage, home, or other consumer products. The chart is only illustrative, and may exclude brands with a very small market presence, or those that have been withdrawn.

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The fine print of the policy reveals that more stores are likely to come up in those states that have already agreed to (or are likely to) allow FDI in multi-brand retail, in compliance of applicable state regulations. The States and Union Territories that have expressed support include Jammu & Kashmir, Delhi, Haryana, Rajasthan, Uttarakhand, Assam, Manipur, Maharashtra, Daman & Diu, Dadra & Nagar Haveli, and Andhra Pradesh. Among other restrictions, stores under FDI may only be set up in cities with a population of more than one million as per the 2011 census. Not a significant hurdle since these are also the prime target markets for large retailers. In states or union territories that do not have cities with population of more than one million, retail sales outlets may be set up in the cities of their choice, preferably the largest city.

Importantly, a minimum investment of US\$ 100 million would be required for a multi-brand retail FDI proposal to be approved. Of the total FDI, at least 50% must be invested in back-end infrastructure within three years of the induction of FDI including investment made towards: processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehousing, or agriculture market produce infrastructure. This will in fact, provide a preference to larger international retailers since smaller retailers are unlikely to bring such a large amount of investment quickly, nor are they likely to be able to invest significantly in areas which are not core to their retail operations.

A significant restriction on multi-brand FDI is the mandatory 30% sourcing from Indian SMEs. This remains an entry barrier; however, foreign multi-brand retailers can choose to work with a network of traders who could build significant turnovers with low investments in plant and machinery as specified under the definition of SMEs. Retailers such as Gap and H&M already have significant sourcing operations in India and they would be able to use these to meet the requisite local sourcing.

The next phase of retail growth: opportunities for UK retailers

The Indian retail landscape needs some 200 new fashion brands and newer retail concepts to fill the emerging quality space in the coming five years. And this offers a great opportunity for global and Indian fashion brands and retailers to enter the market where the consumers are ready for them. According to the India Retail Report 2013 by the IMAGES Group, the fashion retail market (apparel, footwear and accessories, jewellery and watches and beauty) in India stands at \$86 billion, with the modern retail component at \$20 billion. This is expected to reach up to \$168 billion and 44 billion respectively by the year 2015. In clothing, the menswear segment is currently slightly larger than womenswear, but by 2015 it is estimated to change, with womenswear overtaking men's market share.

India shows signs of a healthier business outlook for international brands but the game has just begun and with competition intensifying, we can expect interesting times ahead for Indian fashion majors to partner, experiment and expand the market with a long term view. Over the next 15-20 years, the fashion landscape in India will certainly look very different from what it does now. The market will provide a laboratory for experimentation, and is calling out to global talent as well as local entrepreneurs. There is immense opportunity to create new brands, and to grow them not just in India but internationally. Welcome to the Indian fashion bazaar!

Read more on India's fashion Industry by the Images Group, including opportunities and entry strategies here: [Opportunity in India for Global Fashion Brands and Retailers](#)

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Investment update

Fossil, Promod, Le Creuset and Decathlon get clearance for single-brand FDI

With India's policy changes now allowing 100% FDI investment in single-brand retail, there has been a surge of proposals submitted to the Finance Ministry for approval. In [February, the Foreign Investment Promotion Board cleared](#) those of American accessories brand Fossil, French fashion brand Promod, crockery maker Le Creuset, and sports giant Decathlon. Of these, all were proposals for 100% FDI except Promod's, which is seeking to enter the market via a JV. Decathlon alone is expected to bring in more than £80 million in foreign equity. Foreign brands that have already been cleared in the recent past include Britain's footwear maker Pavers England, Swedish Ikea, America's luxury clothing retailer Brooks Brothers, and Italian jeweller Damiani.

McCain Foods to increase production in Gujarat

The Canadian frozen foods giant [recently announced an additional investment of over £40 million](#) to increase its existing production capacity at their plant in Gujarat. This will see a 50% increase in their workforce. McCain Food India has seen growing demand from its restaurant and hotel client base which includes McDonald's, Pizza Hut, Kentucky Fried Chicken and Subway. The company is now also selling frozen foods directly to consumers at retail stores and there is potential for a franchisee model of kiosks selling McCain products. Their R&D facility in New Delhi helps McCain to better identify and offer products that cater to local Indian tastes.

Study reveals mass grocery and apparel as most favoured for FDI

A [report by Deloitte Touche Tohmatsu India titled "Indian Retail Market-Opening More Doors"](#) explores how FDI changes will affect different retail sectors. The report highlights mass grocery and apparel as two of the fastest growing organised retail segments in India. In both cases, there are large domestic players that could be potential joint venture partners for foreign retailers. While the sourcing guidelines could be challenging for some, a few retailers, particularly in mass grocery, are already sourcing products locally. [Click here](#) to access the full report.

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PROFILE: FUTURE GROUP

<http://www.futuregroup.in/>

The Future Group is one of India's largest retail conglomerates. With over 17 million square feet of retail space, it serves customers in 93 cities and 60 rural locations across the country. Annually, it serves around 300 million customers and sells products and services from over 30,000 suppliers. The Future Group is one of the early retail pioneers to operate multiple retail formats.

Recently, the Future Group underwent an important restructuring process that involved the sale of a majority stake in the group's flagship department store chain Pantaloon Retail India. The changes are part of the Future Group's strategy to better capitalise on India's growth and its rising consumer class. Future Lifestyle Fashion was formed last year, and it is expected that soon the entire fashion business of Future Ventures will be [amalgamated with Future Lifestyle](#).

The Group's change of focus demonstrates the large and yet untapped potential that can be found in India's Tier II and Tier III cities and in the country's youth. A report by [The Economic Times](#) discusses the company's efforts towards exploring smaller formats in emerging cities, catering to youths who wish to buy western fashions. Also, the Future Group has demonstrated a keen interest in forging partnerships with other retailers in order to consolidate their fashion offering. There have been [reports in the media](#) about potential acquisitions by the Future Group of fashion brands, both Indian and foreign, in childrenswear, womenswear and footwear.

Rakesh Biyani, Joint MD of the Future Group will speak at a UKIBC event on Retail Opportunities for UK Brands on April 9th.