

NEW PLAY GROUND OF GLOBAL FASHION PLAYERS – CHINA & INDIA



RETAIL INDUSTRY IS ALL ABOUT CONNECTING WITH THE CUSTOMER.

In the value chain of Fashion Industry, if each Vendor, Manufacturer, Wholesaler and Retailer is be seen as compartment of a train, then the customer can be visualize as engine of this train.

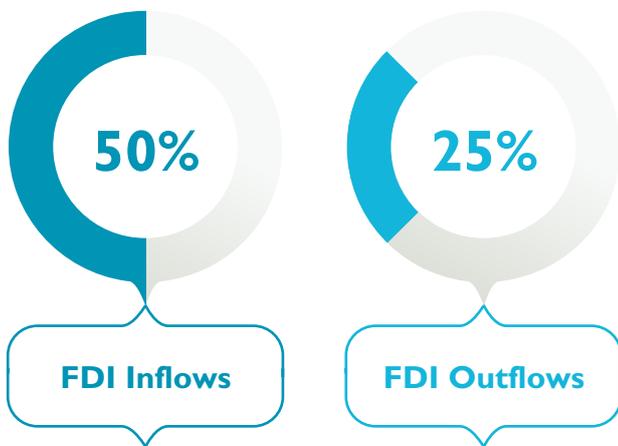
Since the retailer is the first compartment immediately after the “Customer as Engine”, the immediate impact on the customer in terms of their buying power, preference for particular color or styling or even packaging can be better understood and captured by retailer. This is the fundamental reason for any Fashion retailer to be more Customer savvy. As we have witnessed the stagnant or marginal growth in western markets, Global Apparel players are putting up big plans for emerging markets with special focus on China and India.





Estimates show that 70% of world growth over the next few years will come from emerging markets, with China and India accounting for 40% of that growth. The forecasts suggest that investors will continue to invest in emerging markets for some time to come.

Expected Global FDI Flow in the emerging market over the next few years



The brightest spots for FDI continue to be Africa, the Middle East, and Brazil, Russia, India and China (the BRICs), with Asian markets of particular interest at the moment. In today's scenario, most of the Apparel & Footwear companies have higher dependencies on US & Europe market but Asia. Looking at the stagnation of US based revenue; many Apparel & Footwear companies like Nike, VF Corp, Gap, and Adidas etc. are expanding in these geographies across channels.- 50% FDI Outflows- 25%

The BRICs are expected to account for nearly **50%** of all global GDP growth by 2020.

Securing a strong base in these countries will be critical for investors seeking growth beyond them. Between now and 2050, the world's population is expected to grow by 2.3 billion people, eventually reaching 9.1 billion. Over 80% of this demand will come from Asia.

\$56 trillion: Estimated combined purchasing power of the global middle classes by 2030.

\$1 billion: Expected Revenue for VF Corporation from China, India and other key markets in Asia by 2015.

(Note: VF Corporation is World's leading Jean making company)

As per the latest Global Retail Development Index (GRDI) from AT Kearney, it is time for the key retailers to expand their presence to include new countries, including emerging markets. The global retailers are adopting the expansion policy with key focus on countries like China & India, with many extending their e-commerce market place initially and then strategically include brick and mortar (new, partnering with existing retailers, franchising, combination).

90% Chinese use the Internet to gain a better understanding of luxury brands and products.

(Source: China luxury Forecast, Harvard Business Blog)

The biggest opportunities for growth in the Apparel industry will be in stealing market share from competitors in these matured markets and aggressively expanding into emerging and growing markets through localized differentiation and continued expansion of a multi-dimensional shopping experience. While the emerging countries in Asia—most notably China and India—already had a significant share of global growth throughout the last decade, this growth share is

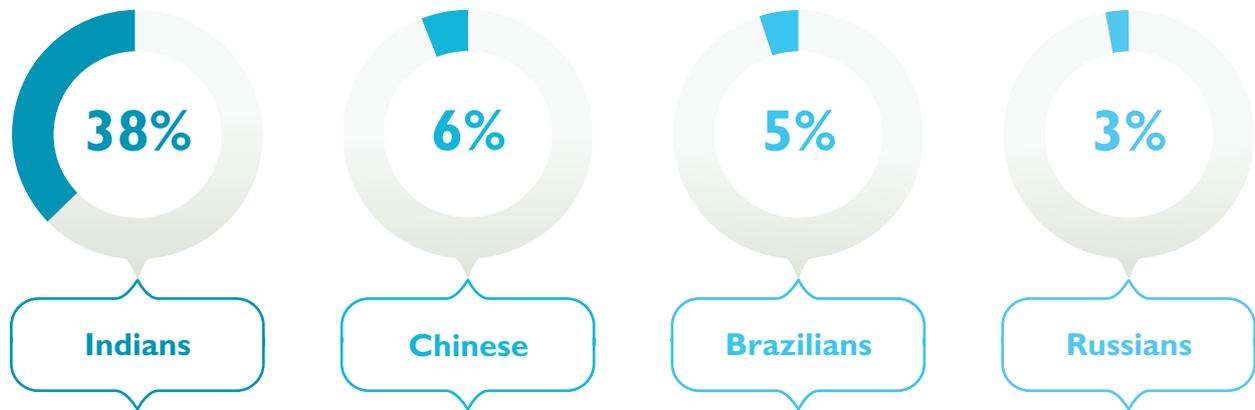
expected to increase to nearly 30 percent in the next decade. Nearly everyone agrees on the importance of this trend, but understanding these new consumers and meeting their needs will be no simple matter for Apparel & Footwear players.

While China is contributing to increased production costs for Nike, it also presents expansion opportunities. Nike's management has indicated that the company sees a significant market potential for branded sports products in China, Brazil and other developing countries. Nike witnessed highest growth from the total amount of orders came from emerging markets (up 21% from last year) in last quarter. This is an indication that Nike is taking its business from emerging markets seriously. In China, Adidas attacked their inventory levels and rationalized their retail stores in 2010. For Adidas, India and China are among the key growth markets for next five year horizon. In China, there is no strong tradition of outdoor participation, so The North Face® brand from world' leading Jean making company, VF Corporation is creating one. In 2010, over 70% of the brand's marketing budget was invested in events that encouraged consumers to get outside and experience the spirit of the brand firsthand. During the year The North Face® brand used social media and an online contest to recruit for an expedition to climb China's legendary Haba Mountain. China recently overtook Japan as the world's second biggest economy, while India is expected to grow even faster than China in the long run primarily because of its young population.



\$250 million: Expected growth in Revenue for Benetton, India within next 3-4 years from 2011.

Inclination towards buying apparel for a specific purpose



We have seen the Fashion Retail Industry shifting from manufacturing focus to wholesale branding focus in past and now experiencing another paradigm shift from branding focus to customer experience focus. As we see the saturation of western market and economic challenges force the Apparel & Footwear companies to explore growing emerging market as part of their International expansion.

Finally, Apparel & Footwear companies with western roots will need to consider how the rise of emerging-market consumers might affect—and transform—their own organizations. For a company with, say, 70 percent of its sales in China and India by 2020, would it still be appropriate for the board to be dominated by westerners and the headquarters to be located in Europe or North America?



ABOUT THE AUTHOR

Amit Bhatia is a Practice Lead with Apparel & Footwear Practice as a part of Retail, CPG, Transportation and Government (RCTG) vertical of Wipro Technologies. He has several years of work experience across the value chain in Apparel & Textile industry. His strength lies in a deep understanding of the complete value chain starting from conceptualization of the product to involvement of the end customer. His vast exposure to supply chain includes Product Development, Training, Manufacturing, close interaction with retailers, managing vendors, setting up an Apparel Factory in East Africa and heading the complete R&D operation of one of India's Largest CPG conglomerates and various technological solutions for global apparel clients. He holds a dual post graduation in Business Administration and Garment Manufacturing & Technology.

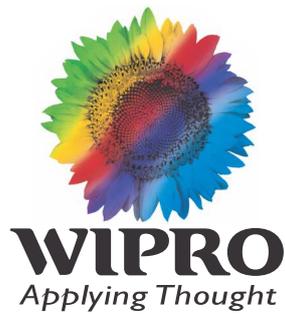
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