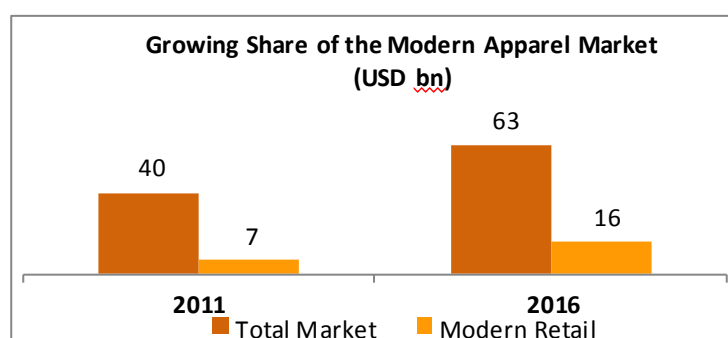


## **Fashion Franchising: Scope and Challenges**

The domestic Textiles and Apparel market in India is worth USD 58 billion, of which about 70% is made up by apparel, and the other 30% by Textiles. The substantial population, in conjunction with such key factors as surging urbanization, increasing number of double income families, higher disposable incomes, rising presence of modern retail, etc. has placed India high on the priority list of both domestic and international retailers. Again, it is anticipated that the apparel segment will benefit by the expansion of modern retail, which currently accounts for 18% of the total market and has the potential to grow to 25% over the next few years. However, while the overall scenario looks promising, the retail industry has encountered numerous challenges in India. The rising cost of real estate in the metros and Tier I cities has forced retailers to rethink their business models. While most retailers do want to achieve scale of operations, they are constrained by the amount of investment required in this effort. The overall economic outlook is also continuously exerting pressure upon the retailers' profitability.

The gloomy macroeconomic scenario also forces retailers to re-examine their current business models and appraise new ones, as a means to furthering the growth both in—country and overseas. As may be apparent, strategies vary from retailer to retailer, especially when venturing into unexplored markets. For example, while some retailers may prefer opening concessionary outlets in department stores, others might ally themselves with a franchisee. Ultimately, the choice of retailing model depends on the brand's business proposition, and the variation is only to be expected.



Source: Technopak Analysis

Again, the popularity of the franchising model comes from its being an asset-light mode of expansion. This allows retailers the luxury of ramping up operations within a short span of time. Franchising also offers the additional advantage of customizability; most agreements with franchisees can be tailored to suit the retailer. Crucially, franchising has a proven record, and a high success rate, which makes it undeniably attractive for new ventures everywhere.

With the opening up of foreign direct Investment, a large number of international retailers set up shop in India in association with Indian partners. While the initial investment came in through the joint venture mode, most retailers chose to expand operations via the franchising route. Today, franchising has become an established trend in almost all sectors like clothing, footwear, education, training, beauty and health products and services, consultancies, wealth management, e-commerce and many more.

Some of the key attributes of India, such as the widespread, multicultural geography, pose a challenge for retailers with plans to expand. Franchising helps the retailer understand the consumer's cultural affinities, thus aiding a more effective scaling up. Besides, the local partner also brings in knowledge about the real estate situation in the target geography, apart from a better understanding of the consumer, and the ways by which to reach out to them easily. The franchisee also bears significantly lesser risk. Within fashion, it is not just apparel brands that are looking at the franchise route; footwear and accessories brands are also following suit. Like the fashion brands, these also have a few company-owned stores and some franchise stores.

Traditionally, franchising has been about low cost retail expansion, sometimes including a minimum guarantee clause, sporadic franchise recruitment, and a surfeit of face value contracts. Today, in India, fashion franchising is no longer perceived to be merely a low-cost expansion tactic, but is instead seen as the ultimate tool for building scale. Most retailers involve the franchise partners in the sales process. Retailers gain an understanding of the market dynamics and a category-wise sales analysis from their partners, and plan the overall merchandising accordingly. Some also give the franchisees a free hand in choosing what to sell in their stores.

With innovation at its peak, franchising is all set to broaden its horizons. Several techniques have been developed to suit both growing needs and emergent situations. Innovation, in terms of formats as well as concepts, is being touted as the next big leap in this field, in the country. For instance, with the advent of the mall culture in recent years, in Tier I cities as well as Tier II and Tier III cities, small budget kiosks are now popular modes of franchising. This is perhaps the next chapter in franchising after regular retail stores and vending machines. The modern investor doesn't explicitly look at conventional sectors alone. There has been a change in the entire franchising world and even investors are a part of it.

It is expected that franchising will gain momentum in times to come. As retailers will want to develop on overall strengths in brand building, understanding the consumer and developing a wider array of offerings to invite the consumer to buy more, as well as the day-to-day running of the stores will be let out to the franchisees. The latter will also not remain specific to a store but will try to utilize the relationship with the retailer to get better organized, over a period of time. The basic operating rules may also be rewritten, making the franchisees take an active part in the risks of the business. Hence, the overall sensibilities of people coming into the franchise business may get redefined in times to come. In the short term, the franchisees might like to derisk themselves by working with multiple brands simultaneously, rather than tie up with just one brand. As a result, there could be various models working in conjunction at any point of time.

The more organized of the retailers will end up using better IT tools to ensure that the overall analytics of the business are mapped on real-time store data. This will also help them continuously engage with franchisees and make improvements wherever necessary and possible.

With both pros and cons, it is anticipated that franchising will develop into the predominant model of operation. However, success will only be achieved by those franchisors in the fashion industry which have strong entrepreneurial skills, risk-taking ability, and which can tap the extant opportunities in these changing times.

**Authored By:**

Amit Gugnani - Senior Vice President, Fashion (Textile & Apparel)