



## It is 'Not' Lonely at the Top: How Two Global Apparel Retailers Slug it out in India?

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### Abstract

The years 2009 & 2010 saw a hustle-bustle in the apparel retail market in India with plentiful high profile exits and entries. Dockers and GAS had to mark their exit after not being able to make money in the lucrative but difficult Indian market. It was around this time that Zara, the world's biggest fashion apparel chain owned by Inditex entered the Indian market. During the global financial distress and slowing economies across, India was the shining beacon with a growing middle class and rising incomes. This prompted the retail giant to look into newer markets and India was too important a market to ignore. Zara's rise went almost unchecked with no major competition in India, till the time the Swedish Retail chain Hennes & Mauritz (H&M) entered in 2017. The protagonist in the case is charged with coming out with a swift and efficient strategy to wither the storm from H&M in India and establish Zara as an undisputed fast-fashion retailer. The case deals with various information pieces like pricing, production, sourcing, offline expansion, online blueprinting, and communication about the two players that would help the students in chalking out a strategy for Zara.

**Keywords** – Zara, H&M, Uniqlo, Apparel Retail, Organized Retail, India

**Paper Classification:** Case Study

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### Introduction

Neeta Shanmugham<sup>#</sup> asked her team to rush into her office for a quick meeting. She is the Marketing Head of Zara and has just finished a tensed call from her boss, Sujoy Gulati<sup>#</sup> who is the National Head for the Spanish Fast Fashion company. Over the call, Sujoy expressed his unhappiness over the falling pace of growth of the company in India which has allowed its Swedish competitor, Hennes & Mauritz (H&M), to challenge its dominance in the branded fast-fashion segment. Sujoy asked Neeta to come up with a counter-strategy that can make Zara the undisputed leader in the organized apparel retail segment in India.

Neeta shared the context with the team and started the discussion. "We are being challenged in the market from multiple fronts and we need to make some major changes in a few focus areas", her voice indicating a sense of seriousness and urgency. "India is a very critical market for the company", she continued, "and under no circumstances can we compromise our position here."



Neeta then goes on to give a background about the Indian apparel retail and specifically organized fast fashion retail market.

## Indian Apparel Retail Market

### 2009 & 2010: Dichotomy at play

The years 2009 & 2010 had a dichotomous flavor to it when it came to apparel retail in India. The market witnessed plentiful exits of global brands like Docker, GAS, Replay, and Argos. Dockers which was owned by Levi Strauss, and GAS that was owned by Grotto SpA and was present in India through a joint venture with Indian apparel major Raymond, exited India after failing to find a profitable space in the market (Agarwal, 2010). In other cases Reliance Brands, a unit of Reliance Retail, was unable to open even a single store of Italy's Diesel, with whom it had a joint venture (Kamath, 2009).

Multiple reasons can be attributed to the failure of these brands. Internal factors like flawed expansion strategy, poor supply chain management, lack of right skilled people, high breakeven expectations, weak cash situation, and expensive brand-building efforts were a few which led some of the companies to force themselves out of the Indian retail space.

External environment that comprised of competition, government regulation, real estate prices and retail eco-system in the country were other critical reasons that led to the imminent exit of high profile apparel retail brands from the country. These factors made it difficult for some of the companies, irrespective of their global might, to be profitable in India, and they eventually made a move-out.

On the other hand, several optimistic predictions were made about the buoyancy of the retail market in India, with apparel retail playing a major role. One such report, published by Boston Consulting Group estimated the Indian apparel industry at Rs1.3 lakh crores in 2010. The industry was also projected to grow at 10% every year. The report estimated that over 20% of the industry, at about Rs 30,000 crore, was under organized set-up, and it was growing at 20% per annum.

This rate of growth was assumed to be almost double the growth of organized retail set up in the overall retail market in India at that time. Exhibit 1 depicts the share of modern retail and traditional retail across segments.

**Exhibit 1- Break-up of sales by Modern Retail and Traditional Retail (Deloitte, 2010)**



A country populated with 1.1 billion inhabitants in 2010 and housing a burgeoning middle class could not be ignored anymore. It eventually started finding a place in the global strategies of major companies for sustainable growth. The rising disposable income clubbed with rapid

urbanization and exposure to western trends and fashion brought about an indelible change in the taste and preferences of Indian consumers. This in turn transformed the Indian apparel industry in many ways, right from the demand drivers to supply functions. As depicted in the chart below, the per capita income rose from less than 450 USD to about 1,350 USD. Global meltdown also made companies look for newer markets to compensate for the falling sales in their existing markets.

**Exhibit 2- Rise in Indian Per Capita GDP in the last decade (Statista, 2018)**



These factors established India as a favorable destination for many apparel retail companies. Exhibit 2 depicts the rise in Indian per capita GDP in USD.

This dichotomy led companies to ask two basic questions before they entered India:

- *How much is the size of the market and how fast is it growing?* and
- What does a company need to do to win in India?

The market though was sufficiently large for new entries, a few high-profile exits by the companies which had deep pockets and established credentials in foreign markets indicated that the Indian market was a complex one. It needed a very specific strategy for a company to be successful in the Indian market.

## 2017: Rise and Shine

Come 2017 and the Indian textile industry, together with the garments industry did not disappoint if one had paid heed to the encouraging predictions made around 2010. The industry along with the apparel industry was the second-largest source of employment for the country, only after agriculture.

It was estimated that about 45 million people were engaged in the textile industry with about 12 million people employed in the garments retail alone. Indian fashion apparel retail market was pegged at the US \$ 70 bn (Facebook & BCG, 2017) and was expected to grow at a CAGR of 9.7 percent to cross the US \$ 100 bn by 2026 (Indian Retailing, 2017). The men's segment which happened to be the largest category in fashion retail at about 41% was expected to grow at 9% while the woman's category which was marginally below the men's category at 38% was expected to grow at almost 10% during this time. Women's segment also happened to be the segment which the global brands like Zara, H&M, Forever21, and Vero Moda have been bullish upon. The growth in these segments has been an outlier in an otherwise subdued global market and that essentially makes the Indian market a magnet for the global markets.

Several factors like demographic dividend, aspirational buying, urbanization, growth in the

e-commerce sector, and an overall rise in the disposable income have played a key role in the growth of the Indian market (Vaid & Abrol, 2016).

### **Namaste India: Inditex's Zara Entry in India**

Zara, the world's biggest fashion apparel chain owned by Inditex which has more than 7,000 stores worldwide announced its entry into the Indian market through a joint venture with the Tata group under its Trent Limited in early 2009. Zara was present in 93 countries (Fashion Network, 2017) at that time and India was too critical a market to delay the entry any more. Financial distress globally after the meltdown changed the dynamics of the business especially at home in Spain, which accounted for one-third of its business. This prompted the retail giant to look into newer markets like South Korea, China, and India. Asia accounted for 12% of its group-wide sales in 2010 from its outlets in Japan, Singapore, Malaysia, and Indonesia (BBC, 2010).

Zara, founded by Spanish Billionaire Amancio Ortega in 1975 has a unique business model that is based on the 'Fast Fashion' concept. Fast fashion market concept entails the following –

- Fashion stock is changed at a fast pace to ensure the adaptiveness and availability of fresh collections. This not only encourages shoppers to shop more often but also allows for creating almost real-time scheduling plans
- Since the design to the outlet chain is very fast (up to 4 weeks) the inventory is limited, hence the margin of error is reasonable and the risk associated with a failed style is limited.

Zara's fast fashion model is based on imitating fashion and styles and creating affordable clothing for its target audience which is about 20% cheaper than its other MNC rival brands like Mango and Vero Moda. It has a record 4 weeks design to sell cycle that emulates the fast-fashion concept. This allows Zara to stock a limited inventory that is available only for a short duration hence reducing non-moving inventory costs. The company ensures that a style that is not hit within a week, is taken off the shelves. Since it is always produced in small batches, it allows the company to sense whether the style is a hit or not, very soon.

The company then accordingly stops or increases the production of some styles and also alter its pricing and discount strategy based on the stock and demand. Zara is hence able to launch new apparel much more frequently than other fast-fashion rivals like Forever 21. Zara launches its new designs twice a week while Forever 21 changes its inventory about 14 times a year.

(Ananth & Fisher, 2010) pointed out in his book "The New Science of Retailing" that despite the huge pile of data that organizations are sitting on, not much of it is used for improving the supply chain of these organizations. Areas like data mining, reinventing forecasting and pricing strategies, building end-to-end agility into the supply chain, and establishing incentives that align supply chain partners are some of the areas where Zara has gained mastery over time. This has helped the company extract maximum value from its technological advancements.

Zara's apparel stock is womenswear heavy with about 40% of its collection targeting women while stock targeted to men and kids is almost equal at about 30% each. While the age group of the target customer for men and women remains in the 18-40 years bracket, the even split of the collection means that Zara outlet can attract family buyers as everyone in the family can find clothing options in the store.

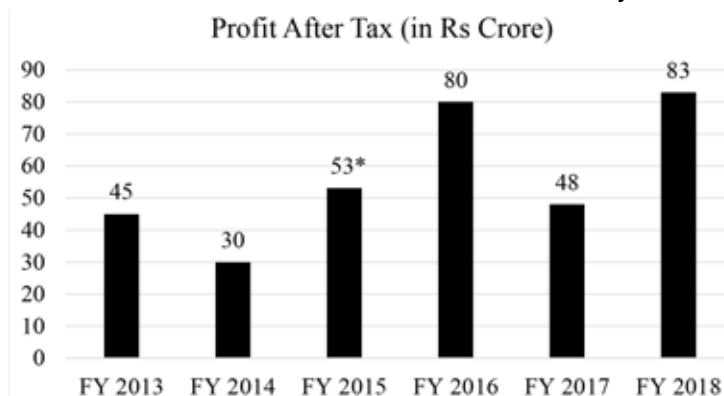
In his book "The Man from Zara: The Story of the Genius Behind the Inditex Group", the author, Covadonga O'Shea has explained how the integration process of Zara makes it possible for

it to meet customers demand in terms of choice and preferences despite holding limited inventory. This is achieved by a three-step process. The first step is to identify trends, while in the second step, they garner information about customer's interests and preferences. The third step is to take inspiration from influencers from the media, fashion, and movie world. (O'Shea, 2011)

Zara entered the Indian market through a joint venture with Tata group's Trent Ltd. The first Zara outlet opened at Select Citywalk in Delhi in 2010 sold apparel worth a record Rs 90 lakhs on the first day according to industry estimates. This helped Zara to cross the Rs 1,000 crores revenue per annum mark in the FY 2017 from its 20 stores. Zara's pricing strategy segregates its collection in stores into two – lower garments and upper garments, with price points reflecting this segregation. This has made it possible to create a perception among customers of Zara being a high-end retailer with affordable prices. In India, Zara started with an entry price point as low as Rs 345 and went up to Rs 8,000 when it set up its first store in Delhi. Zara had reduced its prices by almost 15% when H&M entered the Indian market in October 2015 to desist customers from breaking away.

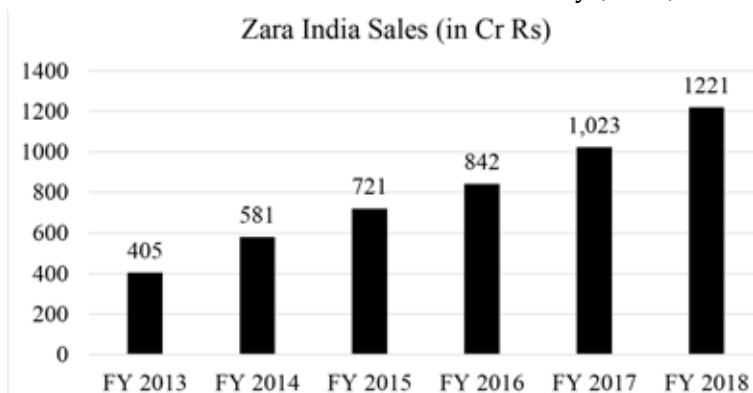
Given the intense competition from other global players like Vero Moda, Forever 21 and Gap the strategy to cut prices ate up the profits which nearly halved to Rs 48 crores in FY 2017 from profits of Rs 80 crores in FY 2016 (Malviya, 2017). Exhibit 3 depicts the growth of Zara's profit after tax (PAT) year on year since 2013 (Bilaye, 2018).

**Exhibit 3- Zara India Profit after Tax from FY 2013 to FY 2018 (Bilaye, 2018; Mazumdar, 2018)**



As for promotion, Zara isn't known to spend big bucks on mass advertising as a part of its branding strategy. Instead it conducts on-ground activities and taps digital marketing during the time of its entry into a city and then mostly relies on word of mouth. It also gets fashion experts and influencers to endorse its products which in turn adds to its word of mouth marketing strategy. Fashion retailers usually spend about 3.5% of revenue on promotions, while Inditex, the parent company of Zara, spends just about 0.3% (Fashion Network, 2017). Inditex has been growing its presence on online media in its markets lately and is already catering 42 markets out of the 93 markets its present in through online channels. This is in addition to its brick and mortar presence. It launched an online platform for the Indian market on 4<sup>th</sup> October 2017 after tying up with major logistics partners like Blue Dart Express Ltd, Delhivery Pvt Ltd, and Gati Ltd. Zara went online in India almost 5 years after it started operations in India.

The marketing mix as discussed above has been effective for Zara and its revenue growth year on year and is a testament to its successful business strategy. Exhibit 4 depicts the growth of Zara's turnover year on year since 2013.

**Exhibit 4- Zara India Sales from FY 2013 to FY 2017 (Bilaye, 2018; Mazumdar, 2018)**

The rise of the retail sector has also supported various other services including retail service in metro cities. The advent of global brands like Zara, Gap, and H&M also brought in various rental models for occupying spaces in some of the most expensive rental spaces of the country. These models and their clever usage plays an important role in the profitability of these companies. Models like 'Revenue Sharing' and 'Minimum Rental Agreement plus Revenue Sharing' are the most commonly used ones which attach the rental income of the mall owners to the sales turnover of the brands.

To appreciate Zara's growth in the Indian Market, one must understand the speed and intensity with which it grew during that decade. In terms of sales, store expansion, per-store sales turnover, sales turnover per sq ft, and profits, the company reached a level that was unheard of in the branded apparel retail market in India. Levi Strauss and Benetton who had spent about 20 years in the country and Marks & Spencer which have been in the country for more than 10 years are still having their yearly sales revenue hovering around Rs 700-800 crores. The biggest homegrown apparel brand which caters to a niche segment, FabIndia, had yearly revenue of about Rs 900 crores in FY 2016. Zara became a magical drink to quench the thirst of the brand hungry yet price-conscious Indian consumers. But that position is being challenged now.

### **H&M Joins the Party**

The explosion of the Indian Retail market and the success that Zara enjoyed, made one of its global rivals to take notice. After much fanfare and a marketing blitzkrieg, Hennes & Mauritz (H&M), the Swedish Retail chain made its entry into the Indian market capitalizing on the buildup created through its elaborate marketing strategy and was able to convert the enthusiasms into footfalls and footfalls into sales. H&M did all that Zara was able to do in the Indian retail market and did it faster. In its first financial year of operation that ended in November 2016, H&M posted revenue of Rs 445 crores which was about half of Zara's Rs 843 crores revenue. H&M had a presence through 29 outlets in India as of December 2017. By August 2017, in its next 9 months of operations, H&M had already crossed revenue of Rs 700 crores with per-store revenue standing at Rs 58 crores. This was the highest among its peers in the apparel retail space. Another feather in H&M's cap was the fact that it turned profitable within the first 6 months of its business in the country. During its Oct'15-Mar'16 operations, which were the first 6 months of its presence in India, H&M posted a net profit of Rs 1.4 crores with a sales turnover of Rs 194 crores.

H&M had a humble beginning with a single womenswear store in Västerås, Sweden, in 1947. Today, the H&M group has several fashion brands and a strong global presence. It owns brands

like H&M and H&M Home, COS, & Other Stories, Monki, Weekday Cheap Monday, and ARKET. It is present in 69 markets with more than 4,500 stores and caters to 43 markets through online medium.

The Swedish apparel retailer opened its first store in India at Select Citywalk mall in New Delhi on October 2nd, 2015. But its connection with the country dates back to 1995 when it started sourcing from India. H&M hence was confident to be in position to follow the 30% sourcing norm which is a must for 100% FDI approval for single brand retail in India.

Karl-Johan Persson, the CEO of H&M in an interview said "The sourcing from India is big today but it will continue to grow. We are working with more than 100 suppliers, mostly around Bangalore." India was H&M's 60<sup>th</sup> market and it submitted a proposal to the government to open 50 stores with an investment of over Rs 700 crores. Unlike its global peers like Zara and GAP, H&M didn't take the joint venture route for its entry into India. It instead entered India under the single-brand retail route which allows 100% FDI in the country.

H&M entered India about five years after Inditex and about four months after US' Gap Inc. It had a clear idea of the Indian customers and the market complexities due to its sourcing business in the country. This prompted the company to adopt aggressive pricing that suited the palate of the price-sensitive yet brand conscious Indian consumers. The entry point was kept as low as Rs 149 for small accessories, Rs.399 for T-shirts, and Rs 699 for a pair of jeans. The most expensive dresses went up to Rs 18,999. The prices were kept 15%-20% lower than Zara. H&M was able to do this due to a large part of sourcing happening from India and Bangladesh. This handed over H&M sufficient maneuverability in pricing its product line, which is critical in a price-sensitive market like India.

Attractive price points and an inspiring in-store ambiance struck a chord with its target segment which happened to be 18 to 40 years old in the metro, tier-1, and tier-2. Globally, H&M has been bullish on womenswear with more than 50% of its collection targeted at women and only a third targeted to men. Womenswear also happened to be the most replenished item in the inventory and retailed stock. This targeting is very evident from their ads and promotional campaign. In line with this strategy, a large space in the outlet at the Select Citywalk mall is dedicated to women's clothing and accessories.

H&M has been aggressive with its expansion plans which have helped it create brand awareness and relevance among its target audience at a fast pace. H&M was operating 29 stores in metros and smaller tiered cities while still being in only their second year of operation. It was planning to open around 50 stores by 2020 (ToI, 2017). H&M has given due focus to online channels as a source of revenue and is already present online in 43 markets. About 25-30 percent of H&M's sales come from the online channel globally which is a testament to both, its commitment towards the online channel and the benefits of being on the online channel. In line with its focus on the online medium, H&M debuted its online store in September 2018, just after 2 years since it started its retail operations in the country.

H&M relied on heavy promotion before and after its launch in India to create a buzz about the brand and offering. For example, as part of pre-launch, it invited fashion experts, influencers, press, and Bollywood celebrities for a special preview of the maiden H&M store in the country. H&M does not rely only on word-of-mouth marketing like Zara.

It has taken it upon itself to promote the brand through mass and niche targeting like OOH, print, radio, and BTL events. H&M's strategy in India has always been about winning the market and not just surviving it.



## Global Fashion Retailers Looking East

The apparel retail segment in the country has seen a host of global retailers making a beeline for a share in Asia's third-largest economy. The low cost of labor and manufacturing have attracted these retailers to the country in past as a sourcing hub. Mango, Forever21, Vero Moda, Marks & Spencer, Louis Vuitton, Gucci, Chanel, Jimmy Choo, Burberry, and Dior have also entered the Indian apparel retail market in past.

Most of the brands have followed a partnership model with an existing retailer to mitigate risks related to international expansion. For example, Playboy, a brand of unisex wear, is being launched by Shoppers Stop. Arvind Brands, which owns a license agreement to market various premium brands of men's wear like Arrow and Gant, recently launched 'Izod' in India. Murjani Group brought to the country brands like Calvin Klein, Tommy Hilfiger, and FCUK. In line with Zara and H&M, other fashion brands like Mango, Tommy Hilfiger, Marks & Spencer, Aeropostale, and Gap Inc have also made an entry into the Indian market with hopes to capitalize on the growing economy and consumerism.

Global Spanish brand, Mango Fashion, which was founded in 1984 in Barcelona has an extensive store network of 2,200 stores in 109 countries. It first entered India in 2001 and has had distribution partnerships with DLF and Major Brands. In September 2017 it entered into a master distribution and management rights partnership with Myntra under which Myntra won the rights to manage its 8 stores in the country, to facilitate up to 25-30 Mango stores over a period and list the brand exclusively on Myntra and Jabong. Mango is known for its interesting product concepts, attractive store designs, high-quality standards, and global brand image. Mango Fashion relaunched its first store in New Delhi on October 5<sup>th</sup>, 2017 as a renewed push to expand in the country over and above its online sales. Currently, 20% of GAP's portfolio is available in India. With a new agreement, Myntra expects to bring home almost 100% of Mango's global portfolio.

The San Francisco-based GAP, which is also the third-largest retailer globally, entered India in May 2015 through a franchisee agreement with Arvind Lifestyle Brands Ltd. 20% of the merchandise sold by GAP is manufactured in India and Bangladesh. All of the manufactured products in the world are then sent to global sourcing hubs in Hong Kong and the US. GAP is planning to sell in India, merchandise manufactured in India and Bangladesh without sending them first to the sourcing hub, thereby reducing the prices by about 10-15%.

This was much anticipated considering GAP products were about 40% expensive than other global rivals like Zara and H&M. A price cut may set the ball rolling for the GAP products considering its perceived better product quality, but it is still constrained by the restricted offline presence in India. GAP currently runs 11 stores in India. Globally GAP Inc (and its brands Gap, Banana Republic, Old Navy, Athleta, and Intermix) had 3,639 company-operated or franchisee stores in 47 countries and the ability to ship to 90 countries.

Forever 21 signed a deal with Aditya Birla Fashion and Retail (ABFRL) in May 2016. The business transfer agreement was signed by ABFRL with Diana Retail and DLF Brands for acquisition of the business undertaking of Diana Retail, which was the erstwhile partner of Forever 21, to sell its merchandise in India under the Forever 21 brand and also through the e-commerce channel. In one of the most ambitious moves by ABFRL in the apparel segment since its acquisition of Madura Garments in 1999, ABFRL acquired Forever 21's online and offline business rights for the Indian market for US \$ 26 million.

While Forever 21's erstwhile partner DLF operated 12 stores in India, ABFRL is planning to take the number of stores to 20 soon. Its womenswear-heavy portfolio may help in the Indian



markets where the womenswear segment is growing at a faster pace than the menswear segment. Forever 21 continues to work on its existing model of designing affordable fashion wear and making them available to the customers in shorter time. If a new style comes to play, then the same will be available in India almost at the same time it is available elsewhere. This will help in keeping the Indian customers of the same fashion-age as their global counterparts. Forever 21 operates more than 815 stores in 57 countries, with the US being its biggest market.

Japanese Retail major, Uniqlo, which is the third-biggest apparel retailer in the world, opened its first store in October 2019 in Delhi's Ambience Mall. After holding a talk with Arvind Brands, Uniqlo decided to go solo in the Indian market through a fully owned subsidiary like its Swedish rival H&M. While the initial launch plan was for 2018, the entry was delayed by a year to 2019 due to the unavailability of quality space. Uniqlo started with its first store in Hiroshima, Japan in 1984, and currently boasts a network of more than 1300 stores in 15 countries.

It is present in countries in Asia, the USA, and Europe. It caters to its target segment through seven brands with the biggest brand, Uniqlo, having a share of 30%. It has quickly earned the reputation of being a fast fashion retail brand with contemporary designs, standard quality and affordable prices. Uniqlo claims to design and manufacture every single item by itself while they also collaborate with experts and influencers. Experts suggest that its merchandise is similar to Zara's in quality while its prices are between Zara's and H&M's. Uniqlo has a slight advantage over its rivals as its collection is focused on cotton-based products which are more suitable for the Indian weather. However, unlike Zara, H&M, Mango, GAP, and Forever 21, Uniqlo doesn't have enough brand awareness among Indian consumers.

On the product mix front, the Japanese brand has an even mix of offerings for both men and women, unlike Zara and H&M that mostly target the women segment. Unlike Zara and H&M which are highly trendy and off-the-ramp brands, Uniqlo is more biased towards contemporary casual wear at affordable prices, which might strike a chord with the young office goers segment which is a big contributor to the burgeoning apparel retail market in the country.

### **E-commerce: The Double-Edged Sword for Global Retailers in India**

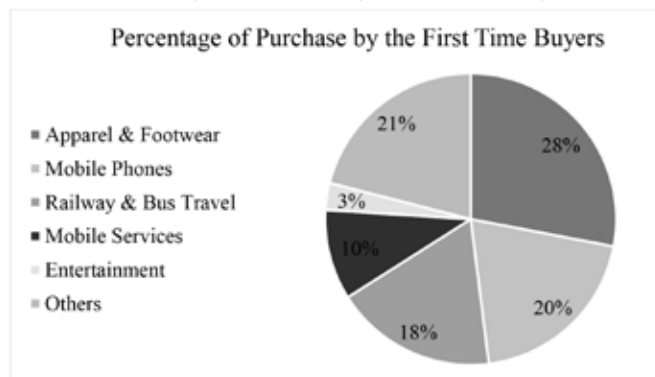
As per a report by Morgan Stanley, India's economy is expected to grow up to the US \$ 6 trillion from the current US \$ 2.3 trillion by 2027, making it the third-largest economy in the world. The economic growth is also contributed to by, and is leading to dramatic growth in, internet services. Fueled by drop in smartphone prices as well as data rates, and improved telecom infrastructure, the internet penetration in the country has reached about 38% and is expected to go up to 60% by 2020 (Gupta, 2017).

Embracing online commerce, and growing retail segments have contributed to the unprecedented growth of E-Commerce in India. E-Commerce sales in India clocked about the US \$16 billion in FY 2016-17 and are projected to reach about the US \$120 billion by 2020. India had 60 million online shoppers in 2016, which is 14% of the internet user base of the country. This is expected to rise to over 50% by 2026, the report said. The fashion retail market in India was estimated at US \$ 70 bn in 2016, out of which about the US \$ 7-9 bn was digitally influenced. This is expected to rise to about US \$ 30 bn by 2020. Sales through e-commerce made up to 4-5% of the total fashion market in 2016 which was about the same as that of the sales from modern retail. This is expected to go up to 11-12% by 2020. Also, around 40 percent of this growth will be driven by a spurt in new shoppers.

A report by Boston Consulting Group (BCG) and Facebook (Facebook & BCG, 2017) suggested

that the Apparel and Footwear category is the highest purchase category by first-time buyers. Exhibit 5 shows the breakup of the purchase in categories by the first time buyers.

**Exhibit 5- Distribution of Category Purchases by First-time Buyers (Facebook & BCG, 2017)**



Long since e-commerce took the retail segment by storm, an average online consumer has been a young and a metro-residing male who has a considerable disposable income and internet-affability. By 2020-21 this will change significantly. The average shopper could be a male or a female and more than 50 percent of the shoppers will be from lower-tier cities. Also, more than a third of the shoppers are expected to be older than 35 years of age (Venkat, 2017). Exhibit 6 shows the breakup of the purchase categories by the first time buyers.

**Exhibit 6- Estimated change in the category mix by 2020 (Facebook & BCG, 2017)**



E-commerce is bringing about an irreversible change in the way people are shopping and retail giants need to take note. E-commerce promises convenience, agility, and a vast number of options to its shoppers while also easing out aspects like returns, refunds, and payments. Apparel retailers must consider this whirlpool of changing shopping habits, while devising their entry as well as expansion strategies in new markets, like India. They also need to carefully read the changing shopping needs to reshape their offerings and services, to meet customer's shopping need and expectations.

### Zara's Immediate Challenges

Zara has been marred recently by multiple issues that have reduced the pace of its growth and shook it from a comfortable position. The rising E-commerce segment is driving away many potential and existing customers from the retail stores to their smartphones. This has reflected

negatively on all the apparel retailers in India, but more so for Zara. This is because the novelty factor is waning faster for Zara than for others since it has been in the country for more than 7 years now. There has also been a spurt in the leisure and experiential activities by the typical target audience of Zara which has shifted the disposable income spend away from Zara.

Intensive competition from rivals has also pressured Zara's top-line and bottom-line. It had to align its pricing strategy with other 'perceived' alternatives for the customers in the market. H&M's product line is perceived to be about 30-40% cheaper than Zara which prompted Zara to reduce prices of its apparel by 10-15% to be less expensive than its closest rivals. Aggressive pricing by the Swedish retailer giant H&M has also fared positively with the mall owners who have extended certain benefits to H&M owing to higher footfalls and ringing cash registers. Since most of the rental agreements are on the revenue sharing model, higher revenues are beneficial for the mall owners encouraging them to offer lucrative deals to H&M including cheaper rentals that may hurt Zara's commercial interest. Uniqlo's entry is expected to add to these woes as it is also an affordable retailer and will be seen favorably by the price-conscious Indian customers and mall owners.

Since Zara has already marked its presence in the bigger cities and metros, expansion in smaller cities is not expected to give it as much growth as it got in its initial launches. Hence, the pace of the growth may not be comparable to its first couple of years. This and the lack of availability of the right location and space has restricted Zara's expansion plans. It is evident from the fact that while Zara could open only 20 stores in its first seven years of operations in India, H&M was able to open 16 stores in less than 2 years of its entry in India.

Zara has also been having issues consistently with shopping mall owners. Recently mall owners issued diktats to Zara against promoting its online platform in its brick-and-mortar stores. They are also incorporating a clause in fresh contracts to prevent retailers from advertising their online business in offline stores. This step comes after Zara started promoting its e-commerce site on the facades of its brick-and-mortar outlets in shopping centers. To add to the woes mall owners, sensing falling revenues over the period, have started pressing for minimum guaranteed payments instead of earlier negotiated pure revenue-sharing deals for retail space.

This is in addition to the demands that mall owners have been making to Zara to cut down the space of the retail outlets to almost half citing falling footfalls and revenue.

### **Is Indian Fashion Retail a Zero-Sum Game for Global Retailers?**

The Indian retail sector has been growing by leaps and bounds since the advent of the 21<sup>st</sup> century. From about the US \$ 200 bn in the year 2000, the industry has grown more than three times to the US \$ 672 bn (IBEF, 2020). Exhibit 7 shows the growth of the Indian retail market from 2000 up to 2016 and the estimated value in the year 2020.

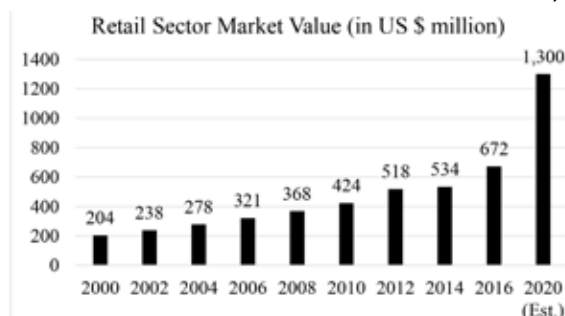
The apparel retail industry has also expanded similarly and was estimated to be about the US \$ 70 bn in 2016. Exhibit 8 shows the growth of the Indian apparel retail market from 2007 up to 2016. These figures and the underlying growth indicates that the apparel retail market in India is growing at a fast pace and can accommodate multiple players. However, too many players in the segment will put profitability under pressure and may force smaller players out.

The key factor here is typically woven in the classical marketing mix with differentiation based on – Product (Width and Depth of the portfolio, Quality, and Segment orientation), Place (Omni-channel presence and focus towards each channel based on market understanding), Price (Entry

points, margin apparels, top-end products, etc) and Promotion (Branding, product, price & quality perception, communication channels and target audience drive messaging).

The target segment is a critical area that has augmented the competitive scenario for apparel retailers in India. All the fast fashion and fashion retailers are eyeing similar segments of customers in terms of geographic, demographic, psychographic, and behavioral parameters. This essentially means that the target group (TG) for these brands largely overlaps each other and hence there is as much thrust on breaking away a customer from the competitor as it is on adding a new customer to the customer list. There is, hence, a sense of insecurity among brands against their competitors leading to a true game theory set-up in this segment.

**Exhibit 7- Growth in Retail Sector in India (IBEF, 2018)**



**Exhibit 8- Growth in Apparel Retail Segment Market Value (IBEF, 2018)**



### Way forward for Zara?

It was late in the evening and Neeta called it a day after a long meeting laden with exhaustive information about the Indian retail market, Zara and its competitors in the Indian market, existing as well as potential. She asked her team to come back with a strong counter strategy for Zara to take on the competition and also to make the brand more relevant to its customers. Neeta was also concerned with the fact that Zara was fast losing its novelty factor and maybe it wasn't aggressive enough in terms of innovation and imagination to maintain the differentiation against its competitors. She strongly believed that the company needs to have a strong focus on consumer profiling and positioning. Neeta was also inclined to relook at their Service Marketing Mix.

She was keen to identify and analyze the gaps for each of the mix's elements and wanted to devise a strategy to address these gaps effectively. Neeta had laid down the ground rule for the strategy for it to be truly transformational and not just incremental, while being cognizant of a strong counter-attack by the challengers in response to Zara's strategy push to regain its lost

ground. With these directions and boundaries, she asked the team to go through the transcripts of their meeting which had details about the competitive landscape and Zara's strengths and weaknesses. The team was to suggest ways to tackle the existing challenges while building on global strength and local opportunities. The team was encouraged to come up with out-of-box solutions and recommendations for Zara to become the undisputed fast-fashion retailer in the world's sixth-biggest economy.

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## TEACHING NOTES

### Case Overview

This is a case depicting a real-life business challenge that is faced by the incumbent fast-fashion retailer, Zara in India. The case is pertinent now because H&M, the competitor reported that it has surpassed Zara in annual sales for FY 2020. The case is about the Indian fast fashion retail market and the rise of Zara while some other international brands were struggling and were forced out of the market. The entry and rise of Zara were unprecedented in these circumstances, and this rise went unchecked till H&M entered the market and took everyone by surprise with its agile yet aggressive move in the country.

This case deals with various information pieces like pricing, production, sourcing, offline expansion, online blueprinting, and communication about the two players that would help the students in chalking out a strategy for Zara to keep the growth engine fuelling despite the strong challenge presented to it by H&M. The case would qualify as a mix of **unfinished story and decision**, as the case is expected to be solved by taking a decision to finish the story. The case is relevant for all business school students who are exposed to the concept of competitive forces, competitor analysis, and competitive advantages. Exposure to marketing and generic business strategies like differentiation and cost focus would help students to look at the case in its true essence.

### Research Methods

The case has been developed through exhaustive secondary research about the Indian fast fashion market and longitudinal analysis of articles about various brands entering and exiting the space in ten years starting from 2008 to 2017. Further detailing has been done for the two brands in question – Zara and H&M, through their official websites and related articles in the public domain. Disguise adopted is partial as the situation and characters mentioned in the case are fictional, while the data mentioned is authentic data available in the public domain. Since the analysis is to be done on the real business environment along with the facts that are in the public domain, the disguise is relevant for a case discussion.

### Learning Objectives

1. The case is intended to help participants appreciate the influence that competition has on a business.
2. Students would learn the nitty-gritty of business challenges posed by strong rivals and how a leader can strive despite the challenge posed.
3. The case will also help in understanding the fast fashion apparel retail market in India and what lies ahead for the incumbents.





4. It is expected that students would assess the external environment including industry and competitive analysis to discuss the case.
5. Finally, the case is expected to teach students how to process and analyze data points without getting overwhelmed and choose data which is helpful in analysis

## Questions

1. What was the nature of the Indian apparel retail market around the 2000s-2010s?
2. How did the Indian apparel retail market change by the mid-2010s?
3. What made Zara Successful in India?

## Answers to Questions

1. What was the nature of the Indian apparel retail market around the 2000s-2010s?

The years 2009 & 2010 had a dichotomous flavor to it when it came to apparel retail in India. On the one hand, the market witnessed plentiful exits of global brands like Docker, GAS, and Replay, and Argos. In other cases Reliance Brands, a unit of Reliance Retail, was unable to open even a single store of Italy's Diesel, with whom it had a joint venture (Kamath, 2009).

Why was this the situation?

Internal factors like flawed expansion strategy, poor supply chain management, lack of right skilled people, high breakeven expectations, weak cash situation, and expensive brand-building efforts. External environment comprised of competition, government regulation, real estate prices, and retail eco-system in the country.

### Organized vs Unorganized Market

*\*Please ask students to refer exhibit 1 in the case\**

2. How did the Indian apparel retail market change by the mid-2010s?

The Indian apparel retail market exploded during this period. Most predictions put the Indian market's growth on a higher level compared to other major economies. This also attracted a lot of foreign brands to India. Several factors like demographic dividend, aspirational buying, and urbanization, growth in the e-Commerce sector, and an overall rise in the disposable income have played a key role in the growth of the Indian market (Vaid & Abrol, 2016).

3. What made Zara enter India?

Zara was present in 93 countries (Fashion Network, 2017) at that time and India was too critical a market to delay the entry by any further. Financial distress globally after the meltdown changed the dynamics of the business especially at home in Spain, which accounted for one-third of its business. This prompted the retail giant to look into newer markets like South Korea, China, and India.

4. What made Zara successful in India?

**Product:** Zara's fast fashion model is based on imitating fashion and styles, and it can launch new apparel much more frequently than other fast-fashion rivals.

Zara's apparel stock is womenswear heavy with about 40% of its collection targeting women while stock targeted to men and kids is almost equal at about 30% each. The company ensures that a style that is not hit within a week, is taken off the shelves. Since it is always produced in small batches, it allows the company to sense whether the style is a hit or not, very soon. These strategies helped Zara cater to a younger audience, especially women who swore by Zara.

**Price:** creating affordable clothing for its target audience which is about 20% cheaper than its other MNC rival brands. . Zara's pricing strategy segregates its collection in stores into two – lower garments and upper garments, with price points reflecting this segregation. This has made it possible to create a perception among customers of Zara being a high-end retailer with affordable prices

**Place:** Zara entered the Indian market through a joint venture with the Tata group's Trent Ltd. The first Zara outlet opened at Select Citywalk in Delhi in 2010 and has added 21 more stores after that.

*\*While this case does not look at the online selling by Zara, the case discussion could touch that point, either in the build or as part of solutions\**

**Promotion:** Zara isn't known to not spend big bucks on mass advertising as a part of its branding strategy. It conducts on-ground activities and taps digital marketing during the time of its entry into a city and then mostly relies on word of mouth. It also gets fashion experts and influencers to endorse its products which in turn adds to its word of mouth marketing strategy. Fashion retailers usually spend about 3.5% of revenue on promotions, while Inditex, the parent company of Zara, spends just about 0.3% (Fashion Network, 2017). This helps it save costs, which it can pass it on to customers and still make decent profits.

**Inventory:** 4 weeks of design to sell cycle that emulates the fast-fashion concept. This allows Zara to stock a limited inventory that is available only for a short duration hence reducing non-moving inventory costs.

**Insights:** Areas like data mining, reinventing forecasting and pricing strategies, building end-to-end agility into the supply chain, and establishing incentives that align supply chain partners are some of the areas where Zara has gained mastery over time. This has helped the company extract maximum value from its technological advancements

##### 5. How has H&M taken the challenge to Zara in India?

Hennes & Mauritz (H&M), the Swedish Retail chain made its entry into the Indian market capitalizing on the buildup created through its elaborate marketing strategy. H&M did all that Zara was able to do in the Indian retail market and did it faster. In its first financial year of operation that ended in November 2016, H&M posted revenue of Rs 445 crores which was about half of Zara's Rs 843 crores revenue.

H&M had a presence through 29 outlets in India as of December 2017<sup>[1]</sup> while Zara has 22 in 2020. H&M is planning to open around 50 stores by 2020 (ToI, 2017). H&M has been much more aggressive about its opening plans. H&M has given due focus to online channels as a source of revenue and is already present online in 43 markets.

About 25-30 percent of H&M's sales come from the online channel globally which is a testament to both, its commitment towards the online channel and the benefits of being on the online channel. In line with its focus on the online medium

H&M entered India about five years after Inditex and about four months after US' Gap Inc. H&M had a clear understanding of the Indian customers and the market complexities due to its sourcing business in the country. This prompted the company to adopt aggressive pricing that suited the palate of the price-sensitive yet brand conscious Indian consumers. The entry point was kept as low as Rs 149 for small accessories, Rs.399 for T-shirts, and Rs 699 for a pair of jeans. Attractive price points and an inspiring in-store ambiance struck a chord with its target segment.

##### 6. Why e-commerce is called a double-edged sword for apparel retailers like Zara and H&M?

E-commerce is bringing about an irreversible change in the way people are shopping and retail giants need to take note. E-commerce promises convenience, agility, and a large number of options to its shoppers while also easing out aspects like returns, refunds, and payments. These customers are almost always the ones who would otherwise throng the retail showrooms. The problem with such behavior is the acceptance of the lack of experience while shopping.

This may risk commoditizing products, and often lead to making price a pivot in decision making. The younger audience is evolving in their rationale for choices of retail stores when it comes to apparel retailing and the same much be acknowledged by retail brands (Mittal & Mittal, 2008) . So while it is an important channel to tap into, e-commerce also presents a potent challenge to how these retailers have been doing business so far.

## 7. What is the way forward for Zara?

*\*Students are expected to refer to external sources like websites of Zara and H&M, IBEF for retail sector detail, and other industry body reports/ articles to be equipped with the practical understanding of the industry before going for case discussion\**

This is a critical question and the discussion should be broken into the following parts:

1. What made Zara successful in the first place?
  - a. Fast fashion that changes faster than trends around. It is so fast that it often leads to the trend change.
  - b. Lower inventory cost helps in keeping the cost low which helped in maintaining the profitability
  - c. The initial expansion was fast that made it penetrate the market quickly and reach out to more people in a shorter time
  - d. The product line and assortments were women-centric and helped them earn initial loyal customers
  - e. The price point made it affordable enough to own but not within everybody's reach which kept the brand appeal intact
  - f. The Zara experience of shopping
  - g. Word of mouth marketing that saved cost and turned customers into advocates
2. How did H&M flank Zara?
  - a. Product width that was more localized than Zara allowing greater adoption
  - b. This was coupled with aggressive pricing as in a price-sensitive market like India product can only take you so far
  - c. The environment was kept more casual and fun than Zara's attempt to keep it classy
  - d. This coincided well with its product and price strategy
  - e. Using celebrity influencers and young vloggers and bloggers struck the right chord with its target audience who thronged it in numbers
  - f. H&M stayed away from creating a snob appeal that worked for Zara at the start but restricted its expansion in later years
  - g. Aggressive physical expansion led Zara lagging with a big margin (Malviya, 2020)
3. How has the current reality changed?
  - a. India's fashion landscape has expanded for good (Amed, et al., 2019) and hence offer opportunities for multiple players

- b. Online has become an equally important channel, if not more as yet, for targeting consumers
- c. Further increase in purchasing power backed discretionary purchase has pushed the sales in retailer apparel business (IBEF, 2018)
- d. Post consolidation in the mid-2010s there is an opportunity for existing players to grow from here aggressively (Amed, et al., 2019)
- 4. What are the levers that Zara has to reverse the negative trend?
  - a. Impeccable Brand Image that still calls for higher appeal among consumers
  - b. A well-structured and globally-proven supply chain that can help it bounce back in any situation as far as inventory management and cost control is concerned
  - c. Zara is in partnership with Tata Group through Trent in India. A partner like Tata Group in India works well for its long term prospects
- 5. What should be Zara's direction to counter the challenge from H&M?

*\*Students must not be encouraged to think in one direction for this question, instead, multiple solutions must be generated which may also sound contrasting. The major directions could be\*:*

- a. Zara positioning itself as a premium retailer playing on its strength, and thus not getting into a head-on collision with H&M
  - i. This strategy will help Zara build on its already strong brand image and project it as a more 'classy' alternative
  - ii. It would help Zara retain the more profitable customers
  - iii. This would not require a major shift from its existing strategy which is much easier to continue with
  - iv. Since there are no many premium apparel retailers in India at a scale that Zara boasts. It might help the company create a Blue Ocean for itself
  - v. However, this would also mean letting go of younger customers who may not have high purchasing power as of now, but may become loyal to H&M as time passes by and choose to stick with it, even when their purchasing power increase
  - vi. This might also lead to alienation of a set of customers who might feel that Zara has intentionally let go of them to catch hold of more affluent customers
  - vii. This strategy would help Zara preserve cash by avoiding a price battle with H&M, which can be used to improve its brand image, especially with more targeted marketing campaigns
- b. Zara positioning itself as a strong competitor to H&M by building on its strength of cost control and inventory management to go head-on with H&M
  - i. This strategy will require Zara to continue strict cost control, and pass on the benefit to customers, thus remaining price competitive for price-sensitive customers
  - ii. The strategy would help it ass new swaths of customers owing to its more affordable price tag
  - iii. However, this strategy may affect the image that the brand has built-in last decade for itself which may be irreparable in future
  - iv. Cutting down on prices and having more affordable products, may also change

- the customer mix at Zara stores, which in turn may shift the experience that Zara aims to offer its customers
- v. A mass outreach would also mean that Zara will have to plan a more aggressive expansion in the future to take on H&M which can be very expensive and may not be very profitable
  - vi. Finally, Zara's retail partner Trent which is part of the Tata Group already runs Westside showrooms that have apparels at a slightly lower price point. Such a move can put it against Trent and that may be disastrous for the so-far successful partnership
- c. *\*Other alternatives like diversification, retrenchment, and digitalization can also be given space in the discussion\**

## General Discussion or Additional Issues

The case does not talk about three major changes that have been brought about in the last two to three years. First, the rise in online shopping especially by the fashion shopper which has also been the customer to Zara as well as H&M. Second, an onslaught by Chinese online retailers like Sheen who have managed to capture a wide base (ET Retail, 2020) not leaving a lot of space for newer players on this channel. Finally, there has been no mention in the case of the ongoing Covid-19 pandemic as it was written pre-covid. The facilitator can take a view about bringing in these and more aspects to expand the scope of the case discussion.

## Epilogue

NA

## Additional Pedagogical Materials

1. The Man from Zara: The Story of the Genius Behind the Inditex Group  
Author: Covadonga O'Shea (Author)
2. Successful Business Models in the Fashion Retail Industry. Strategic Audit of H&M compared to ZA – Author: Nadine Pahl and Wiebke Mohring

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