Fabindia:

Branding India's Artisanal Craft for Mass Retail

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I. Introduction – The Next Makeover

> *"You need to be skilful enough to ride the wave, but you must be at the right place at the right time to successfully catch the wave."*
>
> William Bissell, 1993

At the opening of Fabindia's latest store at Elante Mall, a high-end mall in Chandigarh (Exhibit 1), William Bissell surveyed the scene before him with a sense of pride. As with all Fabindia's outlets, it had the distinctive "Fabindia look" – in the display window, stacks of handloom pile towels in cheerful stripes and solid colours, folded such that the edges did not show and the stripe was visible at the fold, were interspersed with solid colour towels for the contrast. Garments – handblock-printed fabrics with ethnic motifs – lay on shelves in different categories of style, colour and size.

As India's most iconic garments and home furnishings company, Fabindia had come a long way from its humble beginnings as an export shop in 1960 started by William's father, John Bissell, selling handloom fabrics to overseas customers. In 1976, Fabindia started domestic operations in India, and in the next 38 years it had become synonymous with quality handmade products procured from artisans all over India, with a social conscience. The business combined the twin objectives of making a profit and providing a sustainable livelihood for rural artisans. A whole generation of loyal shoppers had grown up with the brand and the view that "If you were a Fabindia person, you were alright."[1]

Nonetheless, the winds of change were blowing. With an uncanny sense of timing, Bissell began to feel that Fabindia could not rest on its laurels as an ethical purveyor of ethnic products. The next generation of consumers, who were part of a different economic environment and world order, were less tied to the Fabindia ethos and had wider consumption choices, ranging from big multi-brand outlets (MBOs, e.g., Lifestyle, Shoppers Stop, Pantaloons), to foreign single-brand retailers (e.g., Levis, Mango, and Zara), local competitors with similar value propositions like Anokhi,[2] to online retailers that sourced worldwide (e.g., Snapdeal.com, Flipkart.com).

To reach its current stage of growth Fabindia had constantly reinvented itself from an export shop to a domestic retailer, restructuring its supply chain and company operations to accommodate the change, but it had always maintained its core position as a seller of Indian ethnic products. With changes in tastes and stiffer competition, was it time to evolve? Should Fabindia continue to remain in that niche or should it broaden its positioning? If it remained niche, could it continue the phenomenal growth it had been producing, and perhaps move upmarket? If Fabindia chose to broaden, what should that broader positioning be?

II. The Company

Fabindia was one of post-Independent India's oldest organized retailers, with a wide range of products (155,000 stock-keeping units or SKUs) produced by over 30,000 artisans, largely

1 Source: "The Fabric of Our Lives", Radhika Singh, 2010

2 Anokhi was more high-end.

from rural areas. Following a people-oriented capitalism model, the mission of the company was to be a viable profitable retail platform for products using hand-based processes, selling products produced using traditional skills, and at the same time creating skilled, craft-based sustainable jobs in the rural sector by translating urban market tastes and requirements for the rural producer.

Beginning from a single SKU called Delhi Homespun Cotton (DHC), a hand-woven cotton fabric, Fabindia's range of products had expanded considerably into women's wear, men's wear, kids' wear, garment accessories, bed and kitchen linen, table linen, upholstery and curtains, fabric and floor coverings, furniture, homeware., lighting, organic foods and bodycare products. From a single retail store in Delhi, it now had 180 stores across 74 cities in India (Exhibit 2), and seven international stores in Italy (Rome), Bhutan, Dubai, Sharjah, Nepal (Kathmandu), Mauritius and Singapore, along with an online store www.fabindia.com.

III. The Early Years

Founder John Bissell came to India in 1958 on a Ford Foundation grant to advise the All India Handicrafts Board and Cottage Industries on handloom fabrics. During his two years as a consultant, he travelled all over India and met many rural artisans whose work he was impressed with. When his contract with the Ford Foundation ended two years later, he was so enamoured of Indian handloom fabric and India itself that he decided to stay on and start his own export company. Named Fabindia to represent "the fabric of India", the company was started with funds raised from friends and family back in the US. It had a two-fold mission: to market the handloom tradition of India to the rest of the world and to provide sustained employment to artisans in rural areas.

John Bissell's personal warmth and generosity drew people to him, and helped to build two relationships that had a major impact on Fabindia's business in the early years. The first was Fabindia's relationship with Habitat, a UK-based retail company that started in 1965 when Bissell was introduced to Terence Conran through his network of friends. Conran was in India looking for a contact to buy products for his company, Conran Fabrics. Soon after, he founded Habitat to sell home furnishings, opening stores around the world over 10 years. Habitat became a major customer (making up 60-65% of Fabindia's revenue) and would be a major driver of growth for 28 years. The other relationship was with Bharat Carpet Manufacturers (BCM), which started in 1966[3] after another introduction made by friends. BCM was a supplier of hand-knotted woollen rugs, called durries, which were in high demand by Habitat customers. As Madhukar Khera, BCM owner said,[4]

> *"It was a great collaboration between Habitat, Fabindia and BCM. When we had a product where the weaver makes decent money, BCM and Fabindia make their normal margin, and Habitat is able to sell at a decent price, then it works."*

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3 Coincidentally, a third important relationship also started in 1966 –the year that his son William, who was to expand John's vision exponentially, was born. John later had a daughter, Monsoon, named after his favourite season.

4 Source: "The Fabric of Our Lives", Radhika Singh, 2010

From handloom fabrics, a small line of clothing was introduced for export in 1970 – kurtas and kaftans made from handloom fabric and hand-block prints. In 1976, the expanding export business resulted in Fabindia having to take up commercial space at the N-block Greater Kailash market in New Delhi, and a small shop in the front portion of the space was put up to check out the response to Fabindia retail, selling mainly leftover supplies from export orders of home furnishings.[5]

In 1977, khadi kurtas (upper garments made from hand-woven cloth) and shirts were added to the retail shelves. The first size of garments stitched and sold at Fabindia were fitted for John (a size 40), and adjusted two sizes up for larger people and three sizes down for slimmer bodies.[6] Women's wear was added after that.

Around this time, Fabindia engaged Riten Mazumdar, a famous designer in India, to design a line of bedspreads and cushion covers, a point marking the beginning of the "Fabindia look" that was stylish and affordable, which would adorn many households of India in the years to come. Garment sales rode on the trend of kurtas being "ideologically trendy[7]" – most university students wore kurtas over jeans as part of "swadeshi chic"[8] and college girls became brand ambassadors for the Fabindia style.

By their very nature, handcrafted fabrics created supply chain problems from the beginning. Even though John Bissell encouraged all weavers associated with Fabindia to buy more looms to expand their unit capacity by granting loans against their invoices in small instalments to finance the expansion, it was hard for Fabindia to increase sales volume and expand in size.

> *"We certainly are reaching the stage of thinking about optimum size – it is getting hard to control quality, and our shipments got very far behind this year – partly because of the increase in business, but partly the management of it all – we need systems – transcribing precise instructions of a wholly automated German buyer to a weaver in a grass-covered shed who operates 10 looms on hand-spun yarn with no education, no finance, no phone, piece-rate workers who come and go… Our producers cannot be automated (which is what it is all about) and often the smaller units give us the fabrics in most demand…"*
>
> John Bissell, 9 December 1979[9]

Perhaps as a consequence of this limitation, John Bissell never intended to grow Fabindia significantly, as expressed in his ideal business model:

> *"After considerable thought, I have come to the conclusion that Fabindia in India is a pretty good size. We shouldn't push for growth – as this means taking on*

5 As part of their creed to support poor artisans, Fabindia never rejected/returned supplier products but instead tried to use them elsewhere or, in the worst case, store them in warehouses.

6 There was an amusing anecdote that John's extra-long arms created a problem of shirts with too-long sleeves, running through all the sizes till it was discovered and corrected.

7 The khadi kurta represented an ideology of Independence, as promoted by Gandhi during his struggle to free India from the British. Gandhi spun khadi as a movement to promote the spinning of khadi for self-reliance instead of using cloth manufactured industrially in Britain.

8 "Swadeshi" meaning self-sufficiency.

9 "The Fabric of Our Lives", Radhika Singh, 2010

orders and customers without much discretion…. Besides I think this is our 'role' – find, develop, and then when a new fabric or durrie gets to be popular and demanded in great volume, let others pick it up… and go on to something new."

John Bissell, 1980[10]

IV. From Export to Retail

"The export wave had crested by then…. You cannot get on to a wave when it's on top, you have to be in position earlier. I knew exactly in that moment that we should go into retail. That would be our wave. And we should build a brand name, and if we export it should be under our brand name."

William Bissell[11]

Post-independence (1947), India's first Prime Minister Jawaharlal Nehru followed a socialist economic model – a planned economy with tight state control over national resources. Known as the "License Raj", an elaborate system of licences, regulations and accompanying red tape that were required to set up and run businesses in India between 1947 and 1990, this was the system that John Bissell's Fabindia operated in.

By 1990, however, inefficiencies in the system and mismanagement of the economy had created a fiscal deficit of 8.5% of GDP. Foreign reserves were sufficient to meet only a few weeks of overseas commitments. The decision was taken to open the economy: the rupee was devalued, quotas were removed for imports, tariffs were reduced, and the domestic market was also freed. The Licence Raj was dismantled and public sector expansion curbed. These measures fostered steady economic growth and the expansion of the middle class with money to spend. These macroeconomic developments formed an important backdrop to events within Fabindia that led to a change in direction.

John's son William initially attended school in Delhi, and was sent to boarding school and college in Connecticut, US, where John originally came from. William returned to India after graduating from Wesleyan University in 1988. By then, Fabindia was a well-established and fairly successful business, still mostly concentrating on exports. Before returning to the fold, William experimented with creating an artisan's cooperative in Rajasthan, setting up Bhadrajun Artisan's Trust in September 1988. This would become the blueprint for Fabindia's community-owned companies. The idea was to set up a collective with leather workers, printer and durrie weavers living in the area. The organisation would support them with funds, maintain quality control, and introduce them to a wider market. Profits generated by the business would be shared by all the members and would also be used to build a fund to build capacity. The Bhadrajun Artisan's Trust was converted into a private company called Desert Artisans Handicraft Pvt. Ltd. (DAH) in 1991 in Jodhpur due to the unwieldiness of the trust structure (which made it difficult to distribute profits to the artisans). Artisans became shareholders in DAH after William had spent time explaining the benefits of shareholding and

10 *Ibid.*
11 *Ibid.*

brought them in as owners. DAH became a major supplier of printed fabric for Fabindia garments in the 1990s.

Meanwhile the relationship with Fabindia's major customer, Habitat, was steadily deteriorating. Habitat had been taken over by Ikano, the Swedish group that founded Ikea, after Terence Conran over-extended himself in real estate development and had to sell his business. The new management did not accept Fabindia's usual terms, e.g., unpredictable delivery (due to supply chain problems) and higher prices than machine-made fabric. They also wanted to cut out the middleman.

In 1993, Habitat officially ended the relationship with Fabindia. For William it was a painful lesson that the middleman could be dropped even after an association lasting 28 loyal years, particularly as his father, in his zeal to promote the handloom product, had connected importers directly to his suppliers on several occasions. Other long-term clients were also moving in this direction as trade fairs in Delhi enabled suppliers to meet clients directly, and increasing wireless communication opened the air to faster supplier-to-buyer interaction. The improving tourism infrastructure in India also meant that small towns were equipped to host foreign guests, so buyers could travel directly to meet suppliers instead of depending on local contacts like Fabindia. Most of all, the expanding market for Indian products brought wholesale buyers looking for quantity, compared to the niche buyers that John Bissell previously worked with, and price was crucial. Fabindia was simply not organized to operate at that type of scale or the low prices it necessitated.

The year 1993 saw the foundation of Fabindia's very existence shaken. In May, John, who had been managing director of Fabindia from the outset, had a stroke after attending his daughter Monsoon's graduation in the US. His son William joined Fabindia as a director in late 1993 and took over the reins.

During this time, sales in India started taking off, with garment sales doing very well. In 1992-93, home market sales were 35% of total revenues but were growing 40% per year. By 1995-96, the home market had overtaken exports (52.4% vs 47.4%). William felt that while exports were still doing well, "the sun was setting on that business model". He did not want to "work like a dog and produce something under someone else's label.[12] Under William, the focus in Fabindia shifted towards retail, though not without some disagreement with his father (who continued to work at Fabindia though on a much reduced scale) and older staff. In 1999, William became MD following the death of his father the previous year.

With the new retail focus, Fabindia began to expand the number of retail stores in India, starting with Delhi and moving to metropoli like Bangalore, Madras and Bombay. In selecting retail space, Fabindia was deliberate in its choices, setting up in heritage buildings to make Fabindia a "shopping destination" (Exhibit 3) in line with its handcrafted merchandise. To cope with the expansion in business, William instituted a number of changes to operations.

To exercise control over supply a centralized warehouse was set up near New Delhi where all suppliers would deliver their output, from weavers to fabricators who would collect the fabric to be made into garments and delivered to the warehouse when finished. All despatches to stores across the country were then made from the central warehouse – each store had a "bin"

12 *Ibid.*

where orders would be fulfilled. In each category (men's wear, women's garments, kids' wear, home furnishings etc.) a buyer was responsible for sourcing products. To compete with small label retailers of ethnic handloom that had begun to spring up in large cities due to the growing popularity of handmade clothes among urban middle-class customers, Fabindia had to improve its product design. Whereas previously it went for comfort rather than style, the company developed better fitting kurtas and a more stylized "value-added range" embellished with embroidery, appliqué work etc.

The growing number of stores meant that store openings and formats had to be more carefully planned. There were three formats: (1) Premium/Full stores (4000+ sq. ft.) which stocked the entire range of Fabindia products with an emphasis on high-end products. (2) Regular/Compressed stores (2000-4000 sq. ft.) which housed the entire range but with a smaller collection of high end items, and (3) Concept/Garment stores (800-1500 sq. ft.) which were opened in new markets with fewer SKUs, stocking the fast-selling range. In 2003, Fabindia extended its line to furniture, developing a range with clean dark lines using production units in Jodhpur, Jaipur and Punjab that worked with mango and sheesham wood. Along with furniture, Fabindia also started a selection of hard goods which included trays, mirrors, picture frames and lighting. By this time, its product categories included garments, soft furnishings, hand-woven durries, handloom and handcrafted textiles, linen, furniture, hard goods and lighting.

With increasing competition from machine-made products, Bissell felt that the inability of handmade products to command a premium was due to the failure of the sector to brand them. It was necessary to create a trademark, a distinct identity for craft-based products. Along with an informal group of craft retailers and activists, he helped established the All India Artisans and Craft Workers Welfare Association (AIACA) in 2003 with the aim of increasing the domestic market for crafts and improving the living conditions of craftsmen. The AIACA launched the Craftmark Initiative, a certification programme to distinguish Indian handicrafts from machine-made products in the market (Exhibit 4).

V. Planned Growth – Vision Plans I, II, and III

Since the change at the helm, Fabindia was chugging along nicely, adding a new store a year at a comfortable pace. While working with Kiran Chainani to open new stores in Bangalore, William met her husband Sunil, a management consultant who had helped international investors enter the Indian market, and who had experience in raising funds for high-growth companies. In 2002, William signed Sunil Chainani as a consultant to develop a growth strategy for Fabindia, and in 2003 he was appointed to the Fabindia board as a director. Under the guidance of William and Sunil, a new growth trajectory for Fabindia was set.

Vision Plan I

In April 2003, Vision Plan 1 was launched to grow monthly sales from Rs 20 million to Rs 80 million in four years. The basic idea was to expand rapidly, opening stores aggressively in new cities and consolidating Fabindia's position in the metropolitan cities.

To use capital more intensively, Fabindia began renting its stores instead of buying the properties. As the original management team no longer had the requisite skills to run the much larger company, a team of professional managers was hired to run the operations.

Fabindia had previously preferred standalone stores and resisted setting up in shopping malls, believing that this would dilute its brand. But with the rapid proliferation of malls, which drew an increasing number of shoppers, including a younger crowd who had not heard of Fabindia, the company could no longer resist the tide. Although setting up in malls was more expensive, the stores more than made up for it in sales. To catch the younger crowd, Fabindia expanded its garment range beyond the classic range and increased customization at the store level (each store could customize its garment range according to its customers). Previously, merchandise in stores across the country followed what was being sold in Delhi, but due to different weather and different customs etc., what was sellable in Delhi sometimes was not accepted in other cities. Fabindia therefore gave the managers of the new stores more leeway in customizing the garment product line – they could decide on kurta lengths, colours and fabrics to suit their clientele.

One example of this was the difference in men's shirt preferences in Delhi and Bombay. In Delhi, men were more conservative and liked to wear greys, olive greens, navy and brown, whereas in Bombay, influenced by the Bollywood culture, men preferred slim-fitting styles in bright colours like orange and purple. Another example was the woollen Nehru jacket, Fabindia's signature product from its Delhi shelves, which was too hot for Bombay and was re-styled in a lighter fabric with the same cut. The only guideline for customization was to stay within the parameters of the "Fabindia look", which was strictly enforced by the Product Design Group that worked with suppliers on the colour palette and design and approved specific garment requests from store managers.

Fabindia also expanded into organic foods, seen as a natural extension of its collaboration with artisans' in rural areas by including farmers. The organic food range focused on the needs of the Indian kitchen, e.g., cereals, grains, spices, sugar, tea etc. It offered customers a complete organic lifestyle, while promoting an ideology rooted in social responsibility. As with other handcrafted products, sourcing was a challenge in terms of quality and consistency, with the additional hurdle of the short shelf-life of organic products (due to the absence of artificial preservatives).

Around this time, Fabindia dipped its toe back into the export waters, this time using its own name and setting up in international markets where the brand was known. For example, it set up a partnership in Dubai, where a large population of South Asians resided.

By mid-2005, two years ahead of schedule, monthly sales were averaging Rs 80 million. Despite the expanded product range and sales volume, its ethical commitment to artisan suppliers remained firmly in place. Shilpa Sharma, recruited as the Bombay store manager in 1998 and was responsible for opening 49 stores out of the 87 added between 2002 and 2008, recounted how when she first sent back a shipment of fabric with production faults, she was told that Fabindia in principle did not return merchandise to the suppliers. She was then sent to the production units to see for herself how the weavers lived and worked. It changed her and made her understand the Fabindia philosophy. This level of training became an integral part of the Fabindia business plan.

Vision Plan II

With the success of Vision Plan I, William and Sunil set in motion Vision Plan II, targeting an increase of monthly turnover from Rs 80 million to Rs 200 million by March 2009. The plan was to add 30 stores in Tier 2 cities and large towns, enhance the product line with new selections of seasonal and high-end products, and exploit Fabindia's retail presence to venture into new businesses.

Quality issues cropped up more insistently with the stiffer competition from machine-made products, which had a more consistent look and feel, particularly in terms of colour-fastness. Recognising that suppliers were getting complacent with quality since Fabindia bought whatever they produced, the company began communicating quality specifications more strongly, and actively engaged to resolve problems faced by suppliers that led to poor quality. For example, colour-fastness was traced to the lack of adequate washing of fabric in the dyeing process due to cost, especially in the drought-prone area of Rajasthan. In response, Fabindia contracted washing units there to ensure there was adequate washing.

Internally, Fabindia improved by changing its compensation structure, which posed problems as it was based on seniority rather than job scope. For example, a long-serving employee in the packing department could earn twice the salary of a newly hired merchandiser (despite the larger skill set the latter required). William hired Elizabeth Nanda, a senior HR consultant to join the company as Head of HR & Training. Henceforth staff were compensated based on skills and job responsibilities, and bonus payments were linked to productivity in an inverted hierarchical pyramid. Junior staff had the largest percentage of fixed salary, while senior personnel had a greater productivity variable constituent. An employee share option scheme was set up for executives in the management team, the volume being decided by responsibility and length of service. The old informal system where people did things the way they thought best was revamped to include standard operating procedures, benchmarks, and a formal performance management system.

Before 2004, Fabindia provided perennial products which sold throughout the year, and supplies were added as required. Now that there were stores all over India, Fabindia began to organize production (setting production and delivery targets) for the seasons as well as for festive occasions, bringing out seasonal collections as well as coordinated collections for festive wear. It also began to source for the "direct purchase" product (i.e. finished product). Earlier on, fabrics had been purchased from weavers and artisan groups and handed out to job workers to be fabricated. Now vendors could make presentations of finished products for selection. A decision was also taken to use fabric other than handloom, which no longer kept pace with demand. The use of power-loom textiles were justified by adding at least one aspect of handicraft to the power-loom base of that product, e.g. hand-block printing or embroidery. Store formats were also reconceptualised to optimise size-to-format ratio so as to maximise the sales of Fabindia's range of products, with the addition of larger stores to accommodate furniture.[13]

In March 2006, Fabindia expanded to bodycare by introducing the "Fabindia Sana" line of soaps, shampoos, hair oils, scrubs, face packs, hair conditioners and special skincare products.

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13 Mini Garment store – 1200-1800 sq. ft., Compressed Full store – 1500-3500 sq. ft., Full store – 8000-15000 sq. ft. and Home store – 30,000 – 50,000 sq. ft.

With the additions of organic food and bodycare products, Fabindia morphed from a furnishings and garment retailer to a lifestyle retailer with a strong national presence.[14]

Vision Plan II coincided with the highest GDP growth India had ever seen, boosted by continuing economic reforms. GDP growth was well over 7.5% between 2003-2005, and 9.2% for 2005-2006 and 2007-2008. For Fabindia, sales rose by over 40% every year, and between 2005 and 2007 another 36 retail outlets were added. Vision Plan II was achieved in a record two years. Importantly, William had laid the basis for the eventual decentralization of Fabindia, which had already begun with store managers deciding their own retail mix and designs. To convert the company into a number of business hubs spun out from a core which offered logistics, planning and financial support, Fabindia began to build the infrastructure to support it, starting with B2B software to connect the stores directly to the central warehouse so that orders and delivery could be streamlined. The platform was designed to be a forecasting tool to plan production.

Vision Plan III

In October 2006, a major meeting was called in Dungarpur, Rajasthan to discuss future strategy, having achieved Vison Plan I and II targets much earlier than planned. Vision Plan III, that came out of that meeting, was much bolder than the earlier plans, envisioning an increase of average monthly turnover from Rs 200 million (2007-2008) to Rs 600 million (2011-2012) through the significant expansion of retail (over 150 new stores in the next four years), the creation of 100,000 skilled and sustainable jobs in rural India, and the building of brand recognition in domestic and select international markets. The plan would require working capital of Rs 2.45 billion[15] to reconfigure the company over the next five years into a vertically integrated business that would minimize hierarchy and utilize new technology to optimise costs in time and resource management.

Originally, Fabindia was conventionally organised around product categories like Garments, Home, Organic Foods, with corporate functions like HR, Finance etc. Under Vision Plan III, it was redesigned into four "verticals" linked and operated through B2B software, as follows:

Domain Specialists and Product Designers (DS & PS) **–** This vertical was set up to strengthen Fabindia's innovation and design. The company paired a designer with a domain specialist for each product line. The designer was responsible for the "look", while the domain specialist was responsible for the technical aspects – e.g., the functionality of the design, fabric thickness, etc. – taking into account the peculiarities of the handloom industry. Each SKU would thus be associated with the DS & PS who designed it. Every fortnight the duo would present a range of product samples to a Product Selection Committee (PSC) comprising senior management and heads of product categories (the buyers). The PSC was responsible for ensuring each product was "Fabindia to the core". Once the product sample was approved, the PSC would determine the order quantity and allocate to suppliers according to their production facility and capacity to deliver. The DS & DP would then work with the artisans to develop the product. To encourage them to be more customer-centric (rather than

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14 Fabindia also went into online sales, launching a B2C site that offered online shopping facilities to customers across 33 countries including India. However, online sales had limited success as customers preferred to touch and feel the fabric before purchase.

15 Source: The Fabric of our lives

product or design centric) Fabindia replaced the existing compensation system of fixed fee per design with a royalty system based on the production of each piece of product designed by them for a period of five years.

Supplier Region Companies (SRC) – This vertical was set up to strengthen and scale the supply chain by aggregating the producers. Fabindia set up 17 SRCs which were community-owned companies along the lines of the DAH. The SRC, which was self-managed, consolidated artisans, weavers and craft workers in a particular geography and offered them joint ownership of resources and access to common facilities. It also trained artisans and developed new handicrafts. The SRC allowed Fabindia to consolidate supply capacity instead of dealing with single-loom weaver units, and to implement a standard system for production and delivery. (Exhibit 5 shows the supply base of Fabindia). Each SRC covered a geographical spread of 6-7 surrounding districts, and supplied all product categories. Initially, Fabindia took a 26-49% equity stake in each of the 17 SRCs, with local artisans holding at least 26%, and the rest held by employees of the SRC (e.g., the manager, packers and other administrative staff) and external investors, e.g. social-based funds.[16] The ultimate goal was for the SRCS to be independent, 100% community-owned. To provide liquidity, shareholders could trade shares among themselves at specific times.[17]

Fabindia set up a separate investment arm, Artisan Micro Finance Private Ltd (AMFPL), to invest in the SRC. AMFPL also entered into an agreement with ICICI Bank to disburse Rs20 million (maximum) to each of the SRCs for working capital needs (not exceeding Rs 1 billion) over a five-year period for all SRCs. Fabindia provided the guarantee for the loan, backed up by a commitment to buy a substantial (if not all) part of the SRCs' production.

Market Regions (MR) – This vertical was set up to decentralize operations. Vision Plan III restructured Fabindia's operating geographies into nine independent 'Market Regions'. The head of for each region was responsible for the entire business operation, which included identifying new suppliers, managing inventory and stores (including working with the SRCs in the region), complying with government regulations and managing people, with an All India Market Head in charge of the performance of the MR vertical as a whole.

Global Support Practices – This vertical was set up to coordinate all parts of the decentralized company. The previously centralised support functions would continue to extend support to the MRs, and comprised a common pool of services including Finance, Technology and Software, HR and Training, Communication, Legal, Programme and Strategy Implementation. A new budget control system was also set up whereby each store was allocated a pre-determined "wallet size" which specified the maximum value of the stocks that it could carry at any given time. The size was determined by store size and scale potential.

In its ideal manifestation, the new Fabindia structure would allot points for rewards and penalties for every activity within the process, thus minimizing management intervention and

16 Aavishkaar Venture Fund, a Mumbai-based fund that invests in social businesses, acquired 15% of DAH Jaipur for Rs 3.4 million. It also invested in 4 other community-owned companies promoted by AMFPL.

17 Once a year, AMFPL hires an independent auditor to value the shares to arrive at the current price. Every six months, a 2-month window for the trading of share is opened. Source: "Fruits of the Loom", Economic Times, 12 Oct 2010.

control. This was particularly true of quality control – instead of implementing centralised quality control mechanisms, Fabindia effectively handed over the quality process to the SRCs after defining stringent procedures, as the SRCs now shipped directly to stores. The stores themselves would decide whether to accept or reject the shipment. (Exhibit 6 shows the work flow under the new structure). Furthermore, the system allowed Fabindia to signal real demand through the supply chain so that artisans made products that its customers wanted to buy, allowing Fabindia to keep its inventory on discount within 2-3%[18 19].

On the social responsibility front – Fabindia's second bottom-line – besides providing artisans with market access through Fabindia's retail network, the SRCs also provided infrastructure and design inputs, access to technology and systems, quality guidelines and timely payments. A deeper social and cultural spin-off from the community-owned company model came from the divisible nature of the shares in SRC, which, unlike land, could be shared among children, partially sold to fund a daughter's wedding or children's education, or used as collateral for a loan at a much cheaper rate of interest. (Exhibit 7 shows examples of how Fabindia has improved the lives of artisans).

While improvements in operations were under way, efforts to attract capital in order to fund the improvements were also progressing. Since Sunil Chainani had joined Fabindia in 2003, there had been plans to raise funds via private equity (PE), but due to the smaller scale of Fabindia then, venture capitalists and PE funds were not interested, particularly when they were still recovering from the dot.com bust. In 2006, however, Fabindia succeeded in attracting equity capital from Wolfensohn & Company LLC, owned by former president of the World Bank James Wolfensohn, which took an 8% stake through a subsidiary WCP Mauritius Holdings. This stake was taken over by luxury brand LVMH's PE arm, L'Capital, in 2012 when WCP exited its investment. In the same year, Premji Invest, the investment fund owned by Wipro's billionaire chairman Azim Premji, acquired a minority stake.

VI. Post-Vision Plans – The Brand Study

With the new structure in place, Fabindia was ready to move on to the next phase. It made a move into the high-end market in 2007, beginning with themed designer collections that led to the first shift in terms of store display. Instead of the standard "Fabindia" format of folded garments on shelves, the expensive and limited edition clothes were displayed on hangers in styles and sizes immediately visible to the customer (Exhibit 8). Jewellery was also introduced as a natural accessory to the designer collections, as well as expensive saris in August 2008.

Fabindia made its first external investment in 2009, when it took over 25% of UK-based East Limited, a retailer that had started out in 1970 in wholesale trading of Indian garments, but was in financial trouble. The investment gave Fabindia access to East's network of 108 stores across cities in England, Scotland and Ireland. Within a year, East had returned to profitability and wiped out all historical losses, and stayed profitable in the tough trading conditions of 2010-2011. The investment in East culminated in a 100% takeover in 2012.

18 Source: "The Earthy Way' ATIMAR, 11 Oct 2012
19 Most retailers have sales at least 2-3 times/year for 4-6 weeks each time with discounts of 30-50% on a significant part of their inventory.

The global financial crisis which rocked financial markets around this time did not leave Fabindia untouched, reducing growth from the 40% level to around 18%, but it still managed to record profits after tax of Rs 210 million after some cost-cutting measures and a voluntary reduction in top management salaries.

In 2010, in celebration of Fabindia's 50th anniversary, every employee was made a shareholder in line with William Bissell's belief of responsibility with ownership. However, while still considered one of the most profitable retailers in the country, with an 8% net margin, three times the industry average,[20] Fabindia was facing headwinds. At the beginning of 2012 it recorded Rs 485 million of monthly sales, not quite hitting the targeted Rs 600 million under Vision Plan III, as growth slowed from the heady days of Vision Plans I and II.

The changing retail landscape in India contributed in part to this slowdown. Higher income levels from India's rapid growth, new technology and lifestyle trends, and an increase in easy access to credit had produced a burgeoning middle class with a taste for modern consumer goods. Fabindia's customers now had a lot more to choose from, from local and foreign single-brand stores to multi-brand outlets. Local names like Kilol, Anokhi, and Cottons were selling ethnic Indian wear like Fabindia, while MBOs like Lifestyle and Shoppers' Stop had expanded their ethnic wear sections. (Exhibit 9 shows pictures and videos of Fabindia's competitors). India's e-tail revolution had seen the rapid expansion of e-commerce retailers offering substantial discounts, and small e-tailers sprouting up with a similar ethos to Fabindia such as nethaat.com, craftsvilla.com, Shopo.in.[21] As William Bissell noted,[22]

> *"New search engines (and e-tailing) will allow price comparison and diminish geographical constraints… if you become a commodity, search engines will eat you up…"*

Adding to the problem were the changing fashion trends among Indian consumers. Whereas previously they had stuck to a preferred label, now they had more of a snacking habit. With a taste for shopping and money to spend, there was no longer any brand loyalty (Exhibit 10). In addition, there was increasing preference for western styles rather than ethnic wear, even among women who preferred traditional Indian clothing[23] (Exhibit 11). There was also a trend towards "fusion-wear", favoured by the younger generation, referring to a mix of Western and Indian elements in design with a more casual look.

Nevertheless, the Indian retail sector was still in its infancy compared to matured markets like Singapore (Exhibit 12), in particular organized retail.[24] (Exhibit 13 shows the evolution of branded retail in India). The future was bright, especially for an established name like Fabindia, but given the changes in the environment, William Bissell wanted to get a handle on where it stood with consumers, and engaged a consultant to study the company's brand health in its main product categories.

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20 Source: "Fabindia's Tightrope Walk", Forbes, 25 May 2012
21 Acquired by Snapdeal in June 2013.
22 Source: "Not easy to Balance Social, Business Interests", Economic times 25 July 2012
23 Source: "Fabindia's Speedy Fabels", Business Standard, 2 May 2014
24 Unorganized retail refers to the mom-and-pop stores or "kirana" stores ubiquitous in India.

Through qualitative methods using 14 Focus Group Discussions (FGDs across eight centres with both Fabindia shoppers and competition shoppers (both men and women) in SEC A[25] and four FGDs in Delhi and Bangalore with Fabindia loyalists, a target group was generated composed of 70% women and 30% men in SEC A1, A2 and B1 who had purchased from the category in a specified period any of the defined set of stores (generated from the qualitative phase). In the quantitative phase, detailed interviews were held with the target group, through interviews with 3,192 respondents across 12 areas having predominantly SEC A/B1 profile. A "wardrobe audit" was also conducted, which was an intensive understanding of the composition of wardrobes of 180 respondents in terms of types, brands, colours and other parameters for Indian and Indo-western wear.

Women's Garments

One of the main conclusions highlighted by the study was the competition for consumer mind-space had extended beyond the niche "ethnic-wear" players like Anokhi, Biba, Kilol etc. Consumers now saw Fabindia within a larger space that included MBOs like Lifestyle, Pantaloons, Shoppers' Stop and Westside. The competitive field had expanded (Exhibit 14) because the consumer in India had changed (Exhibit 15). From one primarily interested in Indian ethnic wear, homely and a good bargain, the new typical consumer was young, affluent, and had a lifestyle to match (shopping in malls, eating out, and attending functions). The choice of apparel changed as the situation demanded: traditional/ethnic clothes in bright colours were preferred for festivals, weddings etc., western casuals and indo-western for daily wear, western formals/kurtas in sober colours for meetings/work/college. Variety was key, and variety-seeking behaviour was the norm. With a widening set of brands to shop from, brand loyalty was less clear. The "Fabindia Loyalist" – those who cited Fabindia as their shop of choice – was not so different from the typical consumer (Exhibit 16).

Consumers were generally not very aware of Fabindia (Exhibit 17). It was slightly more well-known in SEC A1 households and among older women, and there was strong conversion of visits into purchases compared to other brands (Exhibit 18). Fabindia's brand signature of authenticity and craftsmanship (Exhibit 19), however, did not feature among the key drivers in the category: wide variety in designs and colours, garments that fit well, high quality, trustworthy, and store ambience. While customers did rate the in-store experience highly, especially in terms of helpful staff, there were also some areas for improvement (Exhibit 20). Exhibit 21 shows the brand perception of Fabindia and its competitors.

The main factor limiting visits to Fabindia was a lack of knowledge of Fabindia's offering (beyond "heard of the store") (Exhibit 22). Communication was strongly linked to footfall (Exhibit 23). Advertising was limited to announcements of new shop openings. (Exhibit 24 gives an idea of Fabindia's women garments' offering compared to peers).

Men's Garments

For menswear, Fabindia fared just as poorly in terms of awareness and visits versus MBOs like Big Bazaar, Lifestyle and Pantaloons, with Big Bazaar the strongest player across most measures and a market leader except in the South. Key drivers were again garments that fit well and a wide variety of designs and colours, followed by complete dressing solutions, store

25 SEC A refers to the highest group in India's social economic classification (SEC).

layout and convenient locations. Although Fabindia was positively perceived for its conveniently located stores, it was also seen as expensive and lacking visibility (Exhibit 25). Once visited, however, conversion to purchase was very high (Exhibit 26), just like womenswear.

Furniture and Furnishings

For furniture, awareness amongst consumers was negligible, even though the key drivers of the category were: authentic, high on craftsmanship, store layout, keeps coming up with a new range, trustworthy, and handcrafted using traditional Indian methods. Fabindia was perceived as expensive in a competitive context (as with garments). In the furnishings category, however, Fabindia fared better in consumer awareness, being a distant second place from market leader Bombay Dyeing. In this category –where the key drivers were high quality, wide variety in terms of designs and colours, special occasions, helpful and courteous staff, and everyday use – consumers sought variety in terms of furnishings suited to everyday use and special occasions. (Exhibit 27 shows a SWOT analysis of Fabindia's furnishing category).

VII. Next Steps

With the study providing perspective, William Bissell knew that Fabindia had to evolve again. Could it continue to be a niche player or broaden its positioning? If it remained niche, how should it proceed to augment its brand in consumers' mind-space? If it broadened its positioning, in which aspect should it broaden – in terms of type of consumers (younger, lower SEC), in terms of the products (less ethnic, more Westernized), or both? Lastly, was there a need to shift consumer perception of Fabindia as a "classy, middle-aged, expensive" brand to one that was more vibrant and contemporary? How should it do that? These were questions he had to wrestle with if Fabindia was to ride the crest of the new wave.

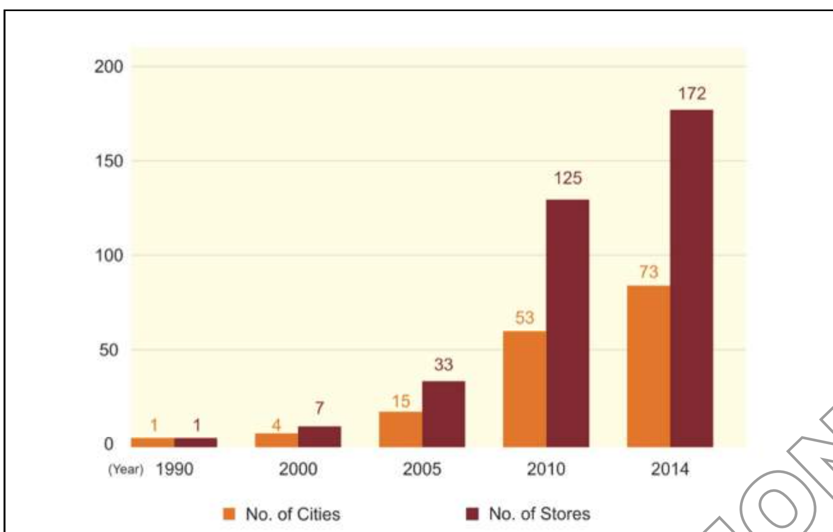
Exhibit 1

High-end Mall Elante Mall, Chandigarh

Source: www.indiaretailing.com

Exhibit 2

Growth of Fabindia



NB: Figure for 2014 is as at beginning 2014.

Source: Fabindia

Exhibit 3
Fabindia as a "Shopping Destination"

Kowdiar, Trivandrum

Mapuca, Goa

Kalagoda, Mumbai

Flagship store at Connaught Place, New Delhi

Source: Fabindia, www.insideoutside.in,www.indianretail.net

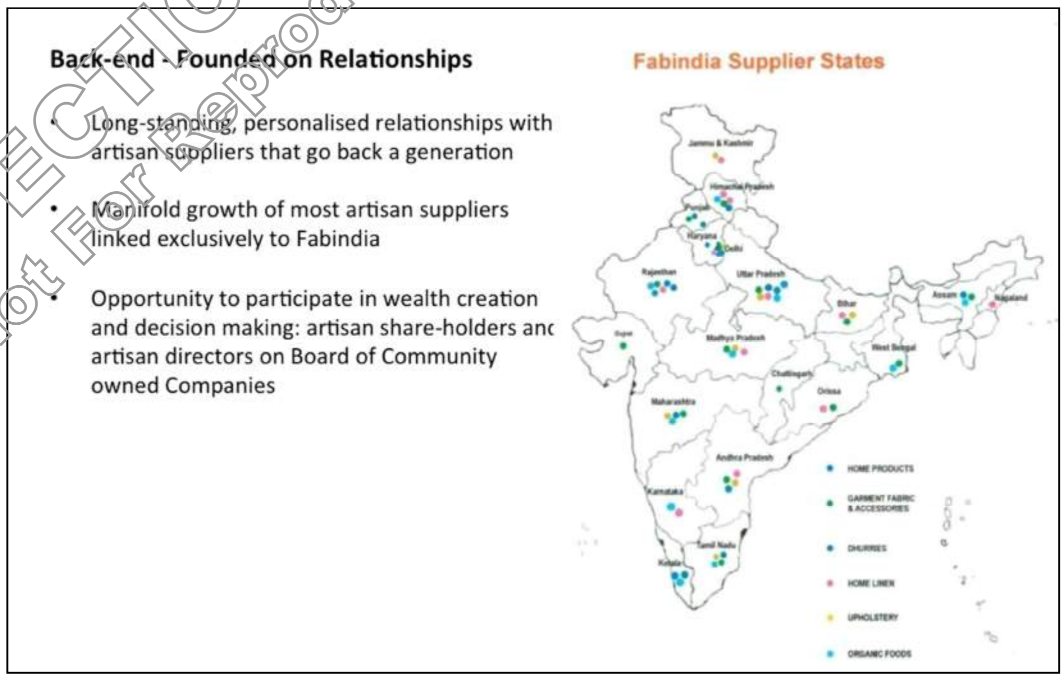
Exhibit 4
Craftmark

The Craftmark initiative helped Indian craftworkers connect to mainstream markets. Craftmark denoted genuine Indian handicrafts produced in a socially responsible manner. It aimed to increase consumer awareness of distinct handicraft traditions. Under this initiative, the All India Artisans and Craftworkers Welfare Association (AIACA) would license the Craftmark logo for use by Craft-based businesses, cooperatives and NGOs for use on product tickets and labels. Each applicant organization was evaluated based on a set of compliance standards that primarily focus on wage and labour practices. Organizations practicing exceptional social or environmental initiatives were used as a model for groups seeking innovative ways of dealing with modern production challenges. Craftmark certification benefited craft-based businesses by exposing them to buyers and consumers who were concerned with protecting traditional crafts and supporting ethical production.

Craftmark Membership Process

To obtain membership so as to be able to display the Craftmark, application must be made to the AIACA. On submission, the Craftmark team would contact the potential member to set up a site visit in which they would photograph and record details of the process, and verify that certain minimum standards were met. The verification fee was Rs 2,000 per process. Thereafter, Craftmark would evaluate the information collected about the organization, and contact it to approve or deny the Craftmark certification. Upon approval, the organization would be sent a Craftmark Certificate, which gave the license to use the trademark on promotional materials. The membership fee was 1.5% of the organization's annual turnover. The entire certification process usually took between 1 and 3 months and applications were only accepted by region during specified months each year.

Exhibit 5
Fabindia's Supply Base



Source: Fabindia

Exhibit 6
Work Flow under Vision Plan III

"Now we shall illustrate the work flow. We'll start with a weaver who is also a shareholder in his regional SRC. He weaves some yardage and shows it to the SRC. The SRC calls in the designers. They like the fabric and decide to develop it further. They work with the weaver for a couple of weeks and develop some more samples. These are shown by the designers to the Product Selection Committee at the next meeting. The fabric is then approved and the cost price finalized. The quantity of fabric to be produced the first time is pre-determined by the software based on a minimum stock requirement ratio and an order is given to the weaver to make the product. The waver produces the requisite amount of fabric in a month and brings it in to the SRC, which enters the fabric into the system after designating an SKU number for the item. The SKU is now part of the Fabindia range of products online. The fabric is stored in the SRC warehouse. New SKUs are flagged in the system and if a store manager likes it, she places an order on the B2B. The order goes to the SRC and that quantity of fabric (SKU) is transferred out of the system and the SRC invoices the store for it. The fabric is transported from the SRC warehouse to the market region warehouse that is responsible for that store. The SKU (fabric) is transferred in to the market region warehouse and held there till it goes to the store. In the meantime the SRC has replenished the same quantity of that fabric from the weaver as was sold to the store to maintain the "minimum stock level" at the SRC warehouse. The cycle is complete." – *excerpt from "The Fabric of Our Lives"*

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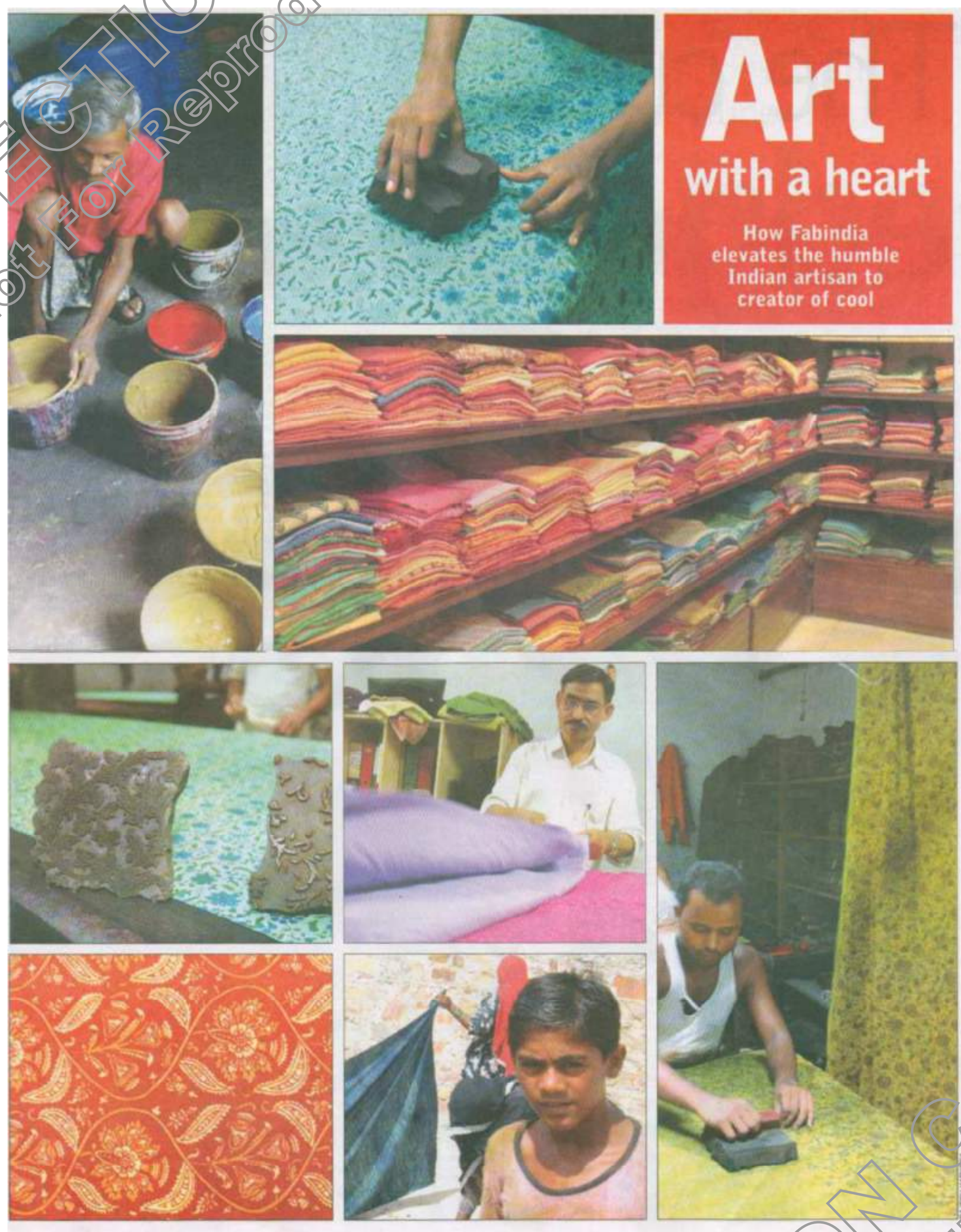
Exhibit 7

How Fabindia Has Improved the Lives of Artisans



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From rags to kurtas: an artisan's story

Mohammad Yasin is speeding in his Toyota Qualis from the Annual General Meeting of Deserts Artisans Handicraft, where he sat alongside Fabindia MD William Bissell on the stage.

Md Yasin is one of the directors and a leading shareholder in DAH, one of the 17 supplier region companies set up by Fabindia. He has a comfortable home in Pipar City, 60 kms from Jodhpur, where bright bougainvilleas bloom in his garden.

It is a far cry from the small, rented accommodation that he once lived in with his three brothers. That was a time when he would go to school, come back and help his father wash indigo dyed fabrics in the river close by. Belonging to a family of craftspeople and natural indigo-dyers, his hands were permanently stained blue since he was a boy.

'This is the sign of a real craftsmen – hands that are stained in dye,' the lady who had given him some work many years ago had told him. Those were hard days, when he had to drop out of class XI to take on his father's craft after he passed away. Yasin was the eldest of three brothers; the responsibility of providing for the family and continuing the family craft forward lay with him.

In 1988, he heard of William Bissell, who was visiting an area close to where he was. Yasin went and met him, showed him some of his designs and got an order of Rs 48,000. On delivering the order, he received the promised check right then — something that was unheard of that time.

"I didn't know what I was to do with the check. William*saab* said encash it at the bank, but I was afraid to take the money back with me to the village that night," he remembers. So the next morning, he came with his mother and cashed the check.

Over the years, he has become one Fabindia's leading suppliers. Recently, he got an order worth Rs 15 lakh and at an average, makes a profit of Rs 30,000 to Rs 40,000 every month. From one loom he has grown to 7, and has 25 craftsmen working for him, for whom he has also bought shares.

Md Yasin may have had to drop out of school but his son is an MBA, interning with Kotak Mahindra, a well known finance company. He will eventually take the family craft-based business ahead.

Yasin now plans to have a showroom for his products in his factory, and a little museum which will showcase his craft to visitors. "My saris are worn by film stars, and I gifted one to the President of India when she visited Jodhpur," he says with pride.

There is one regret that he carries though – that his parents died before he moved into his double-storey home where the bright bougainvilleas bloom.

▪ **Md Yasin dropped out of school to provide for the family and continue the traditional craft. He is now a leading shareholder and has 25 craftsmen working for him**

Source: "Art with a heart", India Abroad Magazine, 3 October 2008

From "Fruits of the Loom", The Economic Times, 12 October 2010 on community-owned companies:

One believer is Mohammad Yaseen Chhipa, who dyes fabric in the dusty village of Pipar in Rajasthan and has been a Fabindia supplier for two decades. Chhipa, 52, is a prosperous man now. His yearly income has grown as Fabindia has, from $8,500 in 1989 to $170,000 today. He owns 560 shares and would like to buy more, but they're in such demand that few people are selling. The artisans can sell their shares to each other only twice a year. Although not many transactions have taken place, there have been enough to triple the share price to $6. Chhipa and other shareholders receive dividends, too, based on how much they produce.

Exhibit 8
New Display Format at Fabindia

Traditional display format

New Display format

Source: Women's Wear Daily (www.wwd.com)

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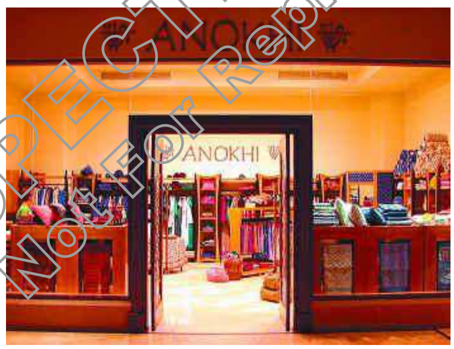
Exhibit 9
Fabindia's Competitors

The Ethnic Wear sellers



For a video of Anokhi, click
http://www.youtube.com/watch?v=c2E-kkCk0S4

For a video of Biba, click
http://www.youtube.com/watch?v=sHkSw834ARw

For a video of Kilol, click
http://www.youtube.com/watch?v=0zaApP9MZGo

The Multi-Brand Outlets selling ethnic wear

For a video of Big Bazaar, click
http://www.youtube.com/watch?v=aDtpY58b7SU

For a video of Lifestyle, click
http://www.youtube.com/watch?v=f1ttbAHarlc - t=95

For a video of Pantaloons, click
http://www.youtube.com/watch?v=O9bLhzDKklY

For a video of Shoppers Stop, click
http://www.youtube.com/watch?v=t7lSAO-rWwY

For a video of Westside, click
http://www.youtube.com/watch?v=5WisGlVSQ30

Sources: www.thehindubusinessline.com, www.indiaretailing.com, plus.google.com, bigbazaar.net.in, www.mouthshut.com, www.livemint.com, www.akshardhool.com

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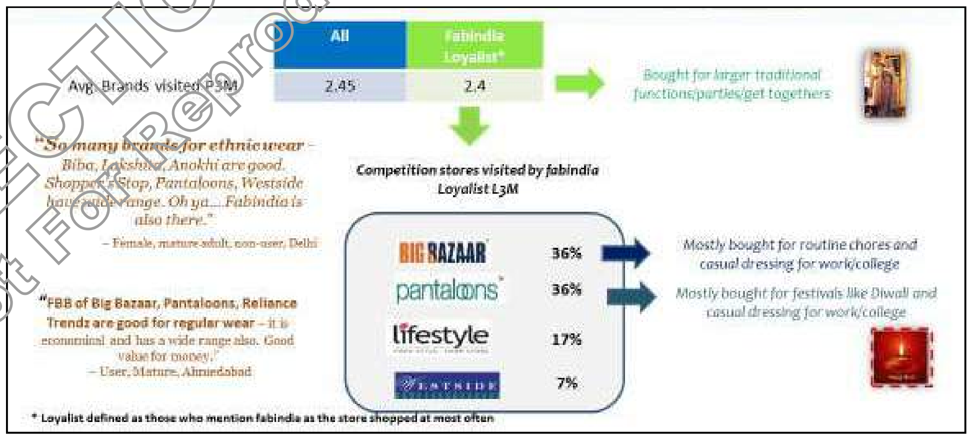
Exhibit 10

Little Brand Loyalty among Consumers

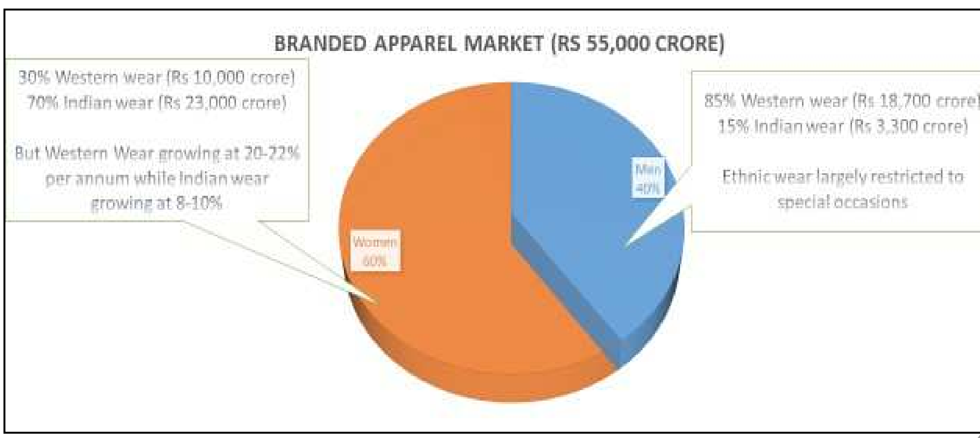


P3M= Per 3 months, L3M = Last 3 months

Source: Fabindia

Exhibit11

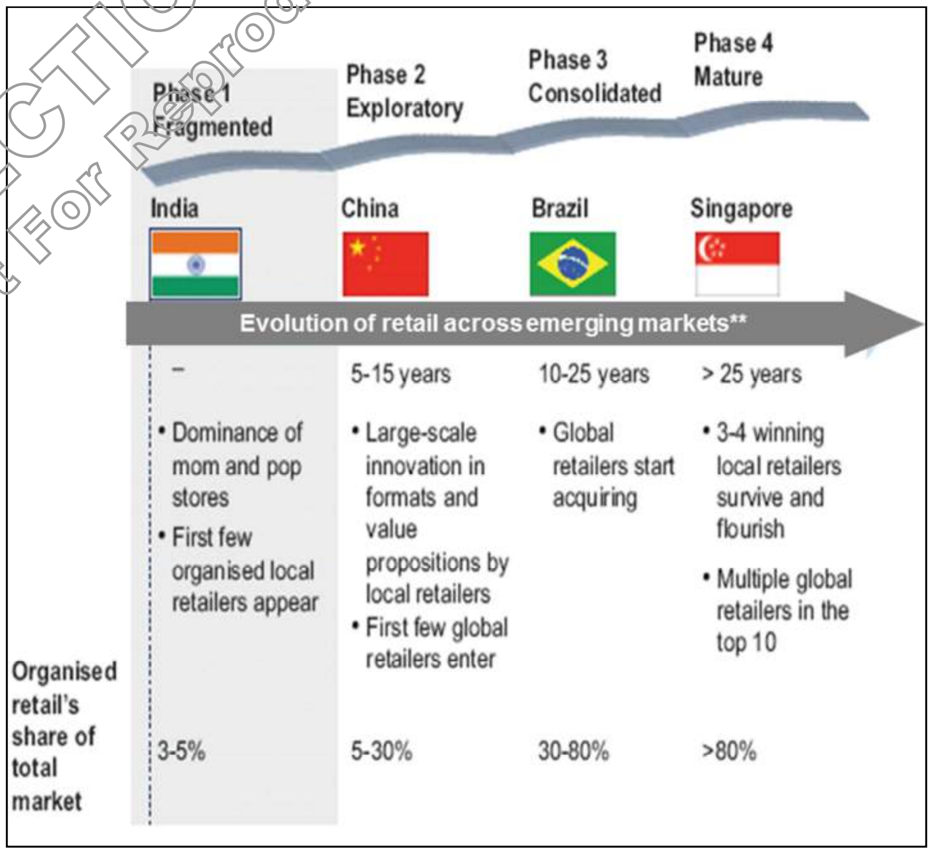
Market Share of Western Wear



Source: "Fabindia's Speedy Fabels", Business Standard, 2 May 2014

Exhibit 12

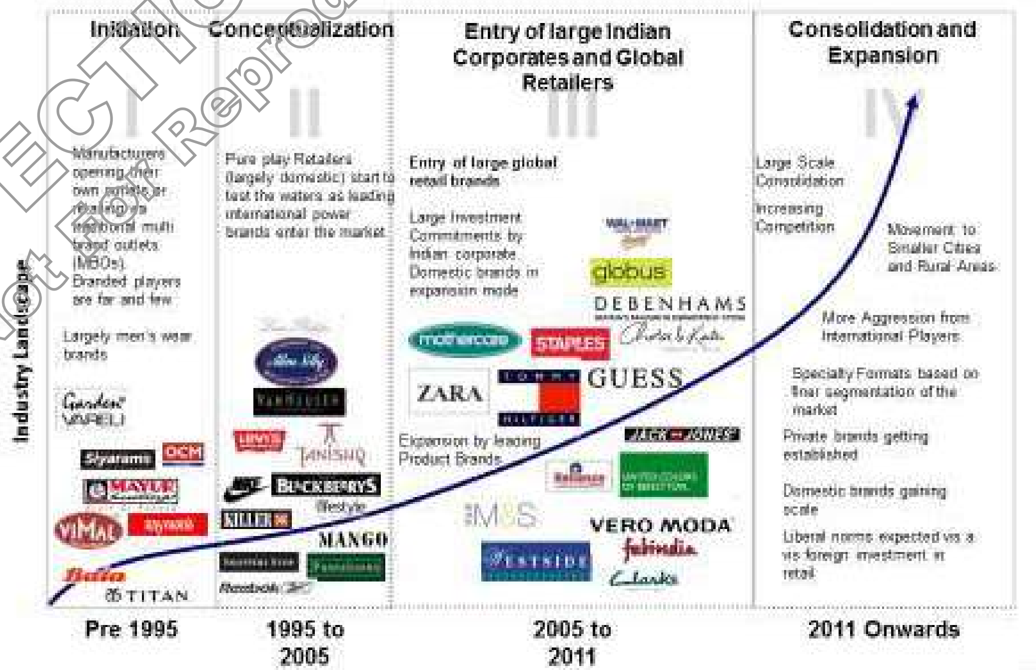
Organised Retail Sector in India Still in its Infancy



Source: McKinsey Research

Exhibit 13

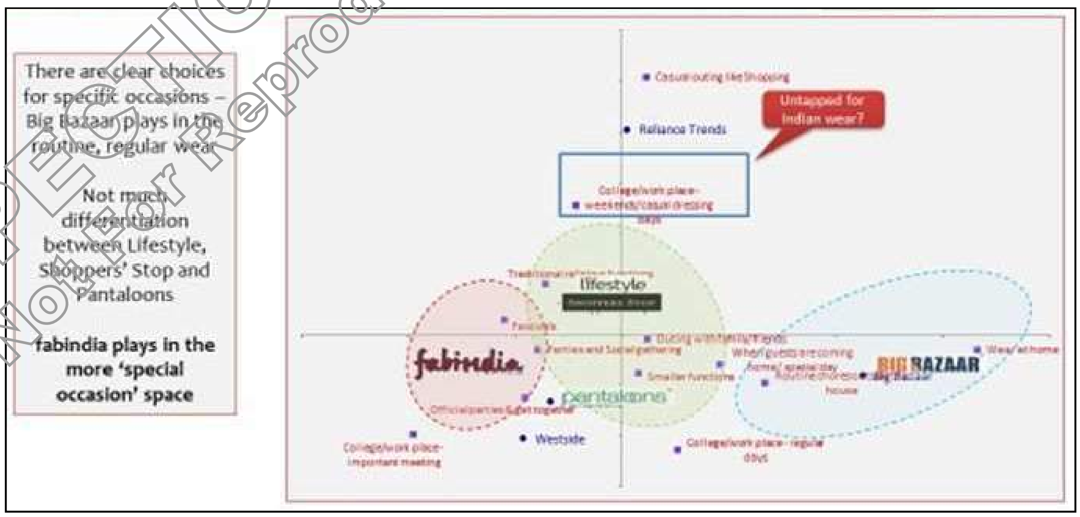
Evolution of Branded Retail in India

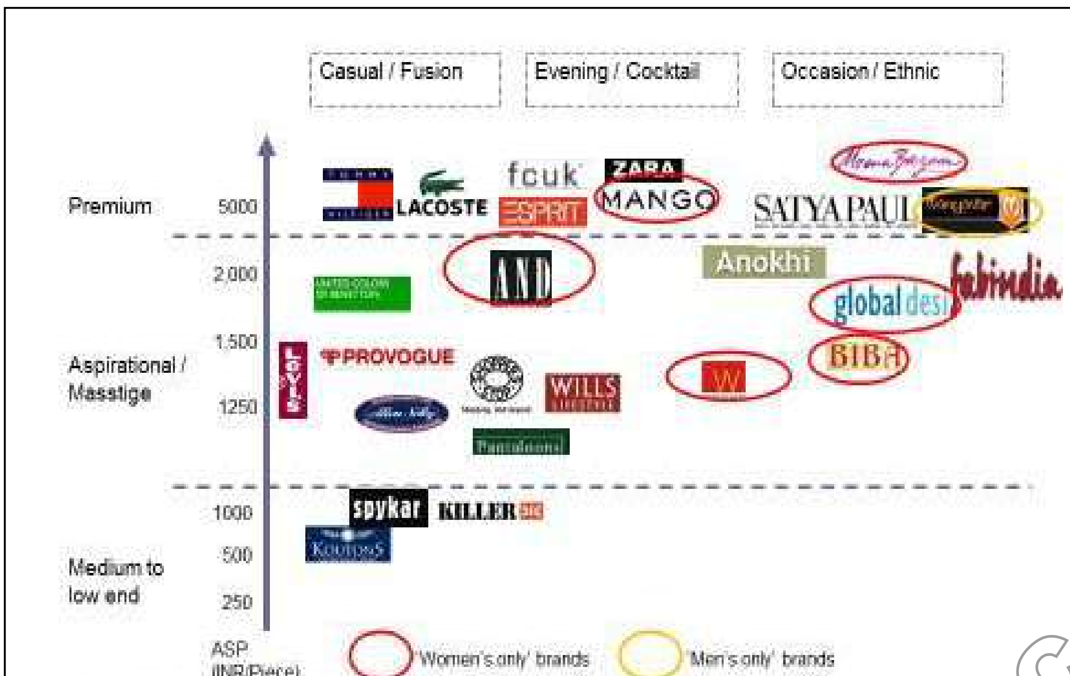


Source: Fabindia

Exhibit 14

Fabindia in a "Broader" Play which Includes Multi-brand Outlets





Source: Fabindia

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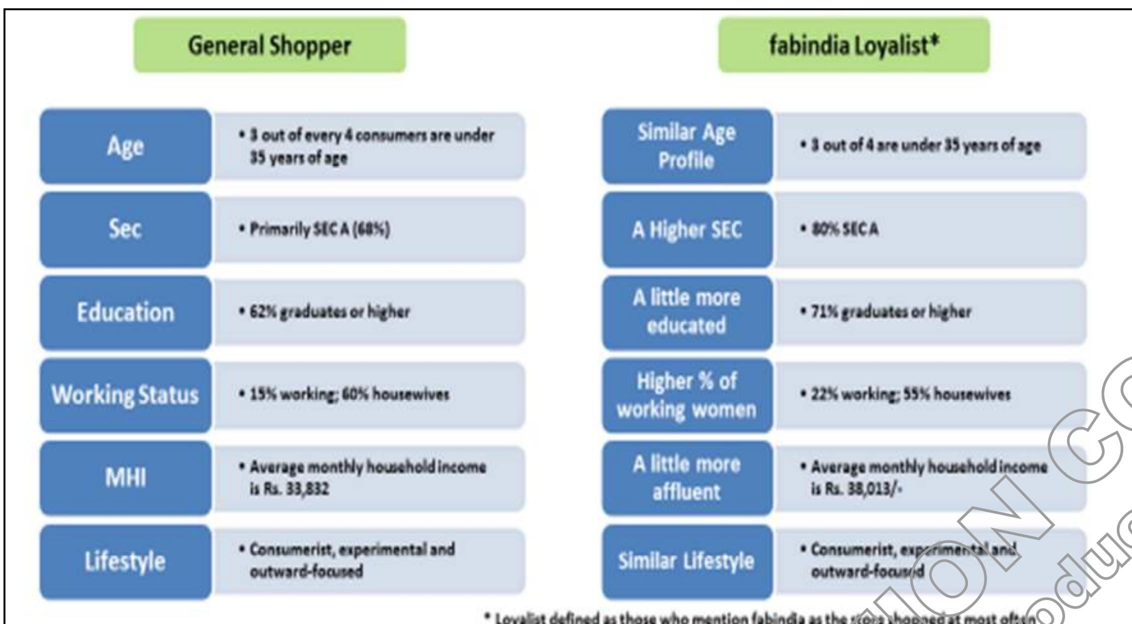
Exhibit 15

Typical Consumer is Changing

Source: Fabindia

Exhibit 16

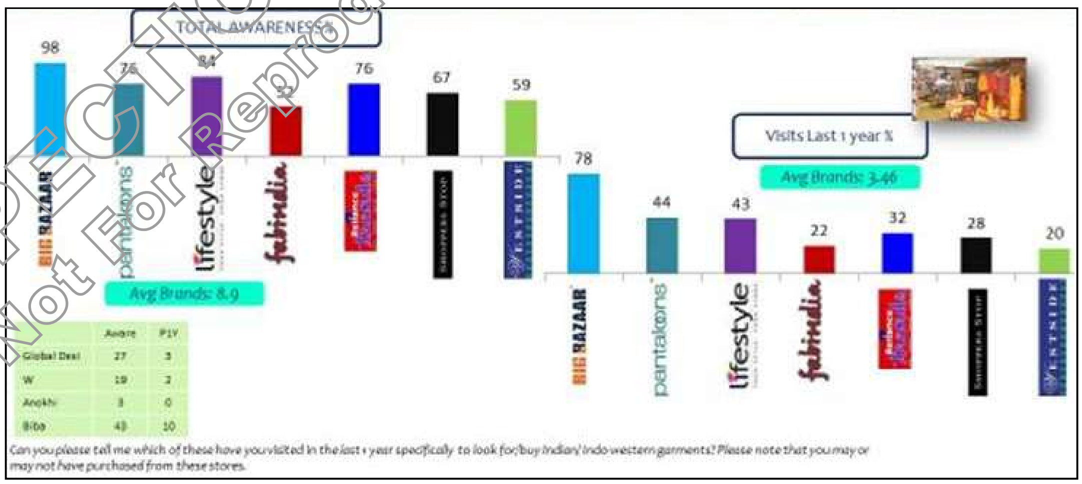
Fabindia Shopper Similar to General Shopper



Source: Fabindia

Exhibit 17

Brand Awareness of Fabindia in Women's Wear

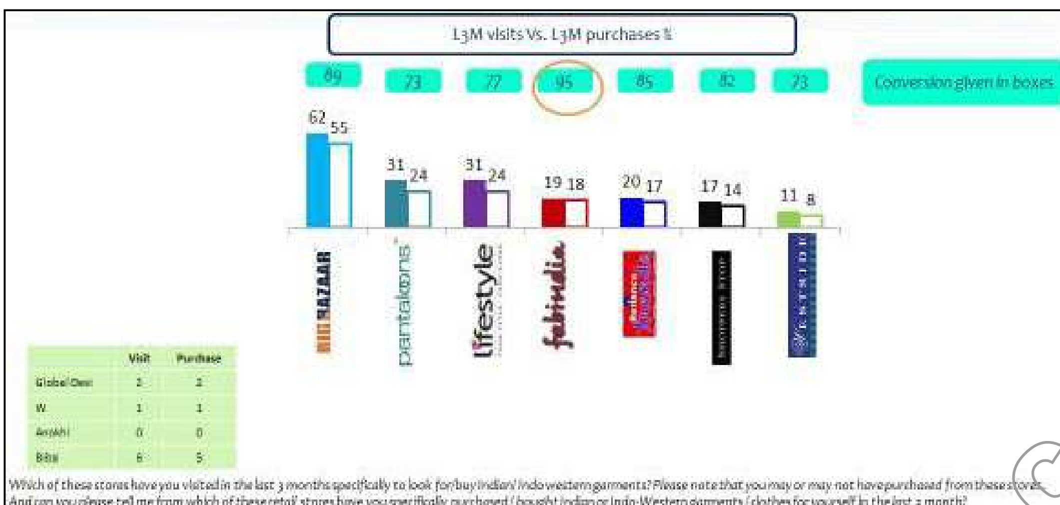


At a total level, 1 in 2 unaware of Fabindia; only 1 in 5 have visited in the last year.

Source: Fabindia

Exhibit 18

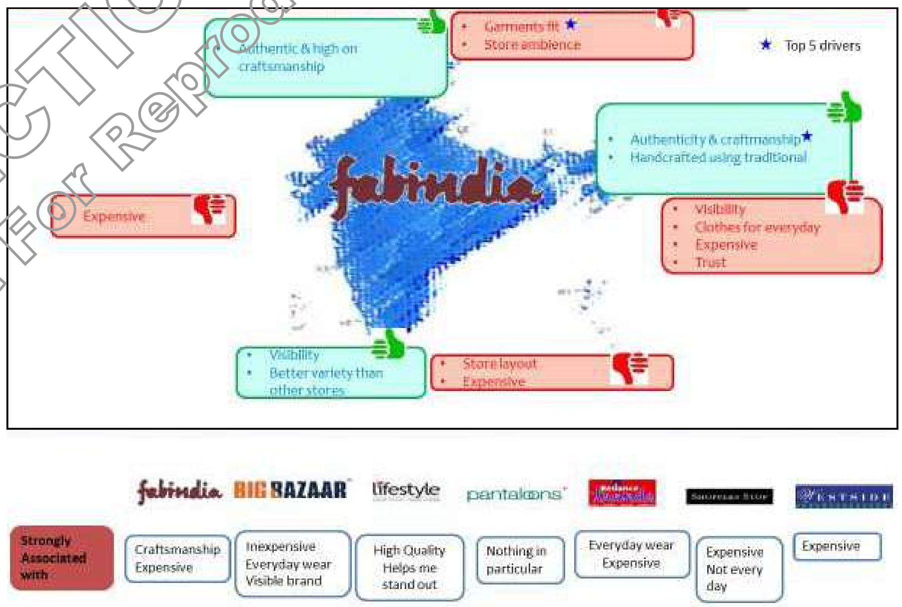
Conversion of Visits into Purchases Strong at Fabindia for Women's Garments



Source: Fabindia

Exhibit 19

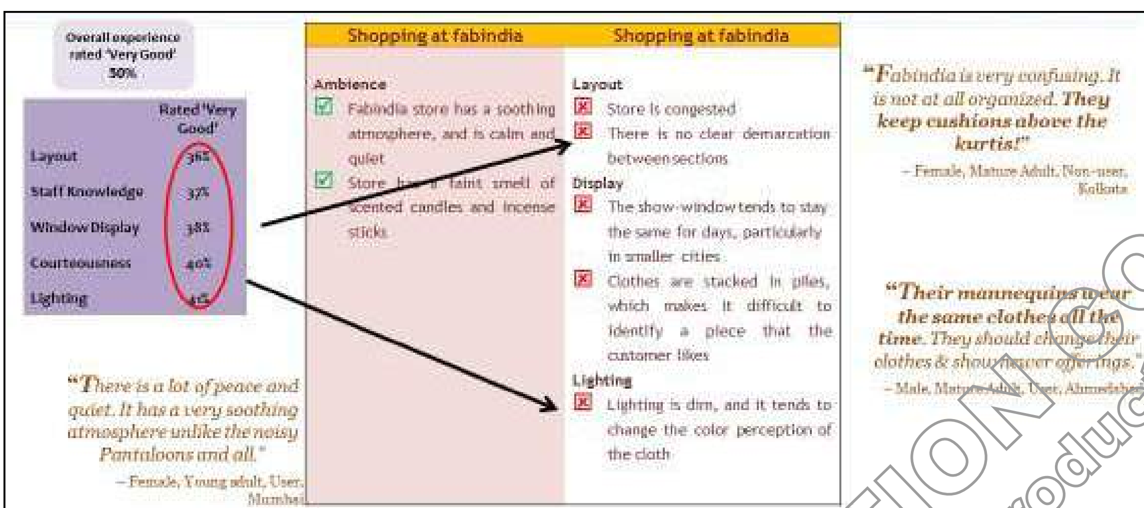
Image Association for Fabindia vs. MBO Competitors for Women's Garments



Source: Fabindia

Exhibit 20

Store Ambience



Source: Fabindia

Exhibit 21

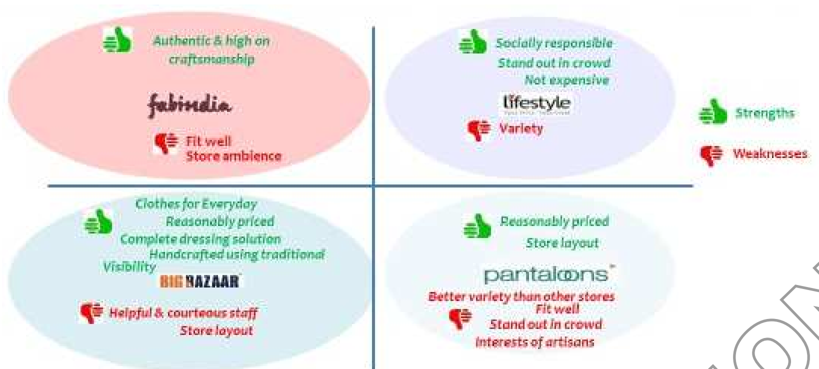
Brand Perceptions of Fabindia and MBO Competitors for Women's Garments

GARMENT RELATED	Big Bazaar	Fabindia	Lifestyle	Pantaloons	Reliance Trends	Shoppers Stop	Westside
Clothes that fit well	60	35	48	45	39	40	35
Wide variety- color & design	61	36	46	48	38	39	40
High quality clothes	55	34	48	44	30	39	36
Range as per evolving trends	54	33	42	45	32	36	32
Better variety than other stores	59	36	39	43	31	39	34
OCCASIONS							
Clothes for everyday	60	25	35	35	32	26	26
Clothes for special occasions	49	33	38	43	32	37	33
Clothes help me stand out from the crowd	52	31	46	37	30	36	33
PRICING							
Reasonably priced	56	27	36	40	29	30	25
Expensive garments	34	37	31	33	33	35	32
Avg endorsements	56	33	41	41	31	36	32
Base:	250	297	421	425	404	350	342

STORE RELATED	Big Bazaar	Fabindia	Lifestyle	Pantaloons	Reliance Trends	Shoppers Stop	Westside
Staff is helpful and courteous	55	34	40	41	34	34	29
Store has good ambience	57	33	42	41	35	34	35
Store layout is good	57	33	42	45	32	37	35
Located in convenient locations	59	31	41	42	29	36	30
CSR & brand related							
Provides eco-friendly products	54	30	39	39	26	37	33
Socially responsible	53	28	39	39	25	32	28
Garments are authentic & have high craftsmanship	58	37	42	42	27	37	33
Garments are handcrafted using traditional techniques	56	35	42	40	28	36	33
Protects interests of artisans	54	32	41	34	30	36	28
Trustworthy	56	28	40	37	30	33	27
Others							
Provides complete dressing solutions	62	34	42	43	32	36	34
Brand more visible nowadays	65	34	42	43	32	40	31
Avg endorsements	56	33	41	41	31	36	32
Base:	250	297	421	425	404	350	342

Competitive strength   Competitive weakness

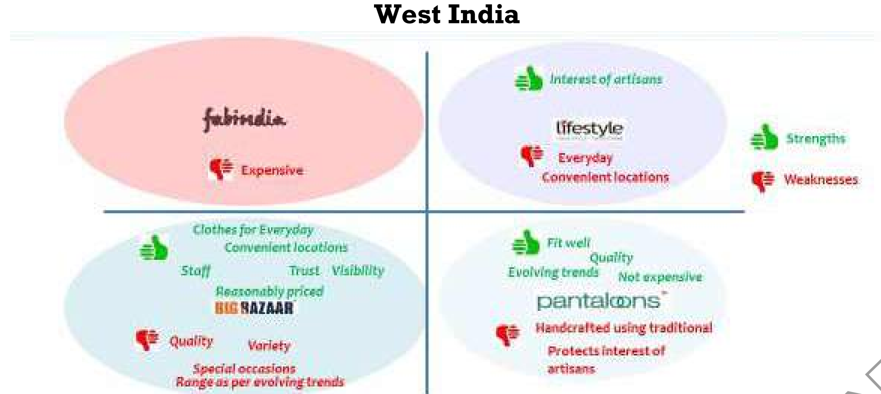
North India



South India

East India

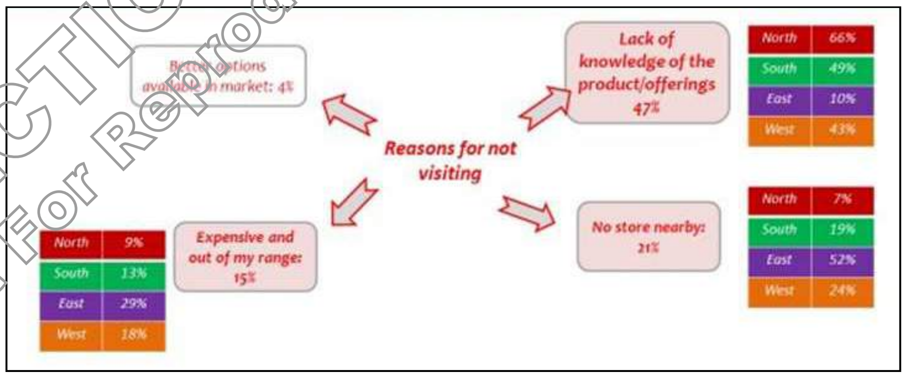
West India



Source: Fabindia

Exhibit 22

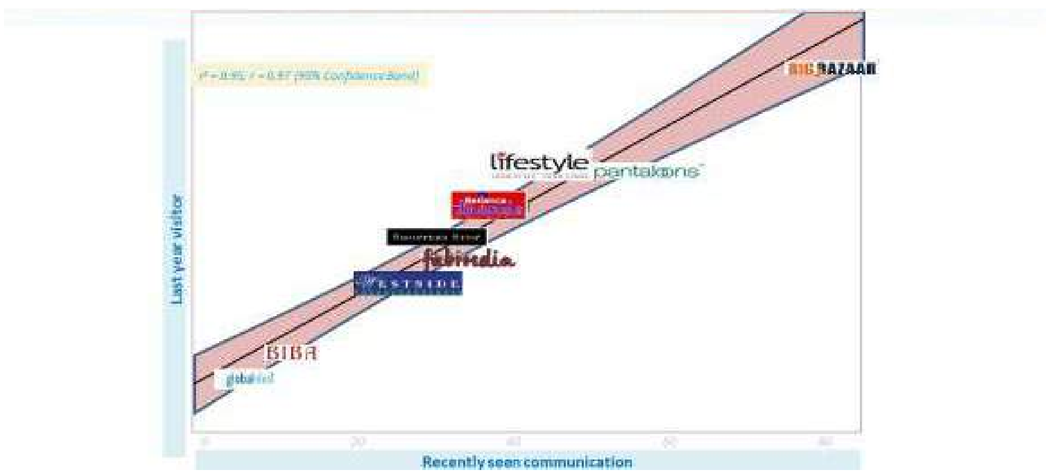
Barrier to visiting Fabindia



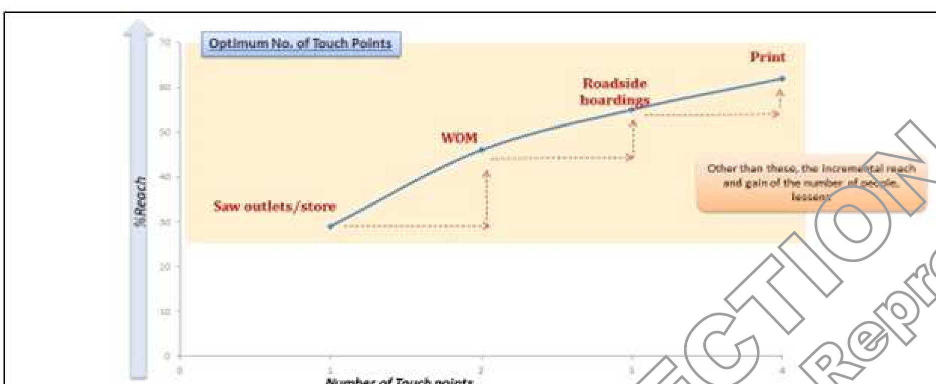
Source: Fabindia

Exhibit 23

Communication Linked to Footfall



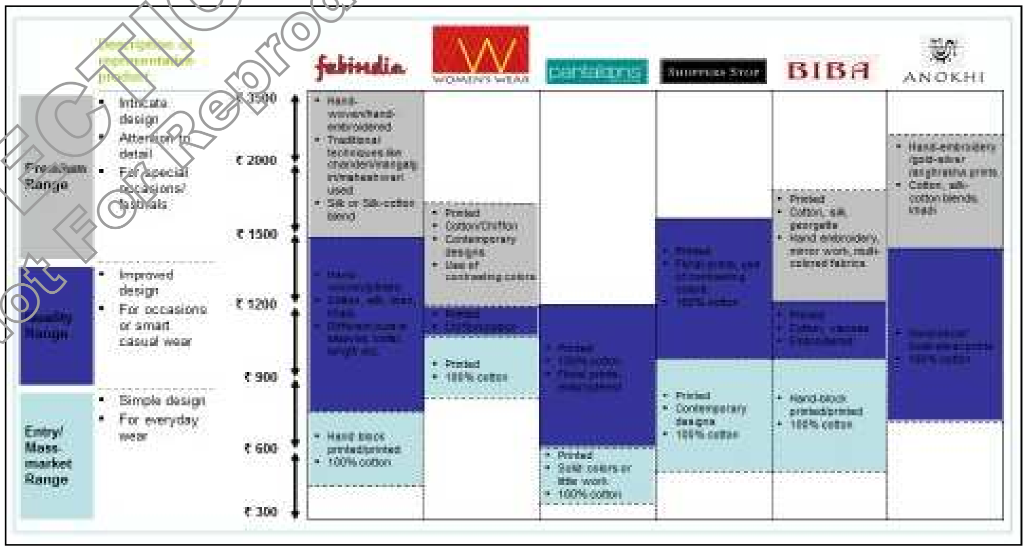
Communication strongly linked to footfall; visibility would help improve footfall



Source: Fabindia

Exhibit 24

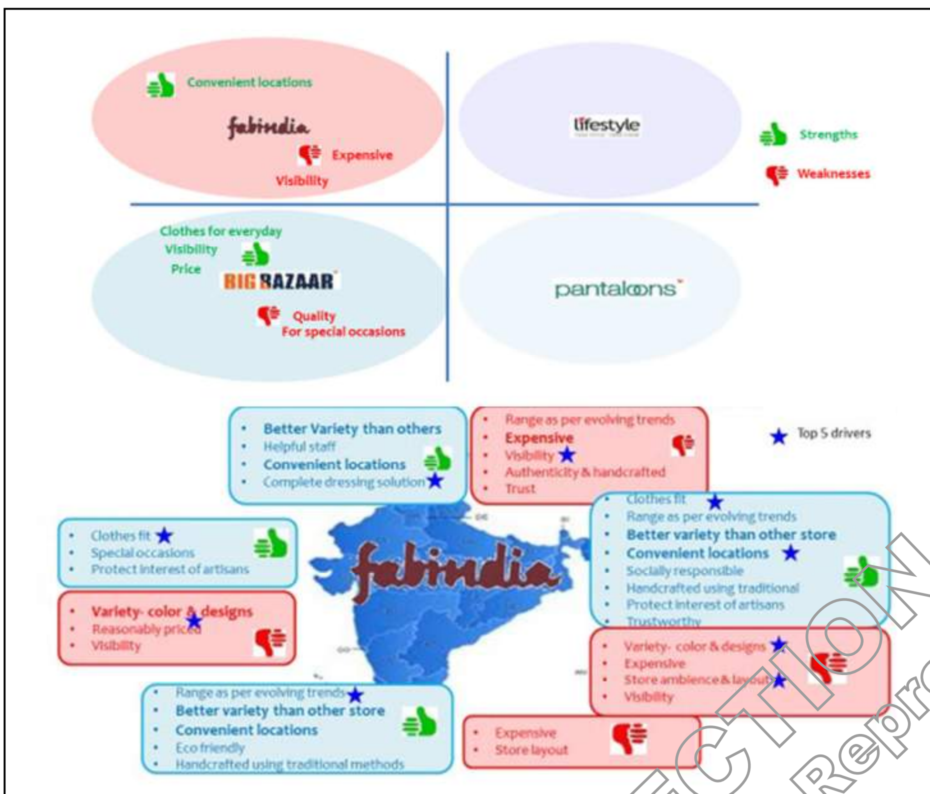
Fabindia's Offering in Women Garments



Source: Fabindia

Exhibit 25

Brand Perception of Fabindia for Men's Garments



Source: Fabindia

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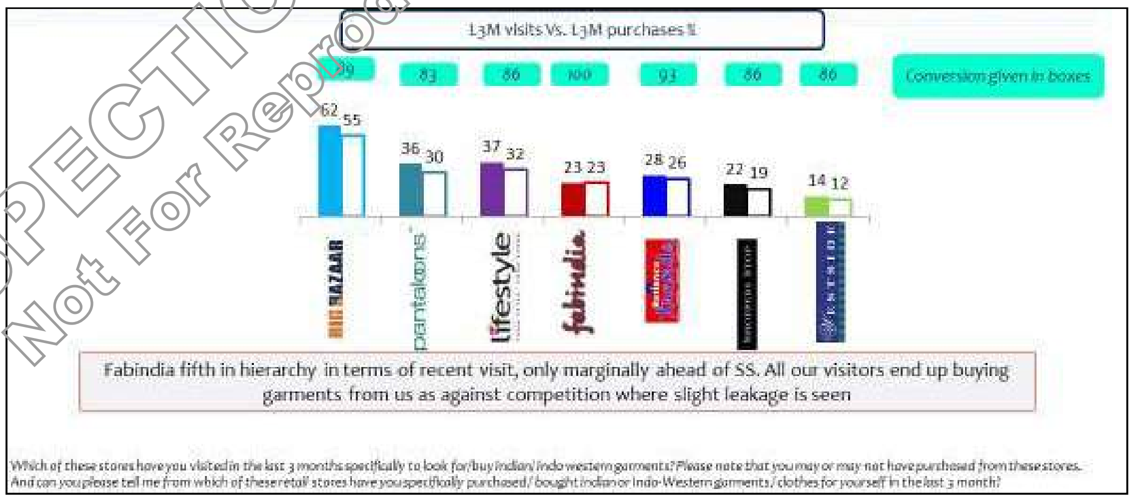
Exhibit 26
Conversion to Purchase for Men's Garments



Source: Fabindia

Exhibit 27
SWOT Diagram of Furnishings

Source: Fabindia