Assessment of Five Competitive Forces of the Indian Apparel Retail Industry: Entry and Expansion Strategies for Foreign Retailers

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ABSTRACT

This study assessed the five forces affecting the Indian apparel retail industry's competitiveness and discussed entry and expansion strategies for foreign retailers. Despite the rapidly changing Indian market since the deregulated FDI policies, research is lacking about competitive forces that determine the structure and success of the apparel retail industry. By employing Porter's five force model as the theoretical framework, this study conducted an extensive review of published documents. We found that several forces lower entry barriers for foreign retailers, including deregulated policies, increased shopping malls, and rising income and demand for western brands. However, threats of substitutes are significant due to the proliferation of gray markets and Indians' preference for unorganized retailers and traditional wear. This study fills the gap in the literature by discussing strategic orientations for foreign retailers to maximize favorable forces and minimize disadvantageous forces in India.

Introduction

India is an important market for foreign retailers due to the dramatic social and economic changes in recent years. India ranks within the top five countries in the retail apparel index when considering market size, growth prospects, consumer affluence and readiness (Kearney, 2010). The Indian economy is flourishing with an average GDP Per Capita growth rate of 4.8% between 1997 and 2009 (UNICEF, 2010), and is expected to be the world's third largest economy after the United States and China by 2050 (Dadush and Stancil,

2009). In 2006, relaxed versions of Foreign Direct Investment (FDI) policies were introduced in the retail sector, allowing joint ventures with up to 51% ownership in retail trade of single brand products (DOC, 2006). Accordingly, the Indian retail industry is expected to grow at a rate of 7.8% per year, reaching a value of $39.4 billion by 2013, an increase of 76.7% since 2006 (Datamonitor, 2009). Despite the current FDI restrictions for multi-brand retailers, the thriving growth rate of the Indian retail industry and a large consumer base with increasing buying power provides great market potential for foreign retailers (Srivastava, 2008).

Apparel is the fastest growing segment in the organized retail sector, with highest number of domestic and foreign brands in the market and increasing consumer willingness to pay for brand and quality (Datamonitor, 2009). With the government acting as a catalyst, the Indian retail industry is in a highly dynamic state. The rapidly changing retail landscape in India demands a systematic and in-depth analysis of the current status of the industry and emerging forces that affect the competitiveness of the industry. Furthermore, significant differences exist in the strength of competitive forces between the organized sectors and unorganized sectors in the Indian retail industry, demanding a careful analysis of each sector to provide a more accurate and holistic understanding of the industry structure.

The purpose of this study is two-fold: 1) to analyze the structure of the Indian apparel retail industry with a focus on underlying competitive forces since the trade liberalization, and 2) to identify emerging issues and opportunities to help strategic positioning of foreign apparel retailers operating in India. To accomplish these research goals, we conducted a comprehensive review of published documents, including academic journals, books, newspapers, trade publications, and government and industry web sites. Porter's five force model (1980) was applied as a theoretical framework since it allows a compressive and systematical examination of an industry's structure, which determines the attractiveness of an industry and the industry profitability. The five force model also provides a baseline for evaluating a retailer's strengths and weaknesses as to where it stands in terms of consumers, suppliers, entrants, rivals, and substitutes (Porter, 2008).

Theoretical Framework

Porter's five force model (see Figure 1) proposes that an industry's structure depends on five competitive forces: 1) threat of new entrants, 2) bargaining power of buyers, 3) bargaining power of suppliers, 4) threat of substitutes, and 5) intensity of rivalry (Porter 1980). The cumulative strength of these forces determines the profitability of incumbent and emerging firms in the industry. The main factors affecting each force are discussed below in the context of the Indian apparel retail industry.

Figure 1. Porter's (1980) Five Forces Model: Theoretical Framework of This Study
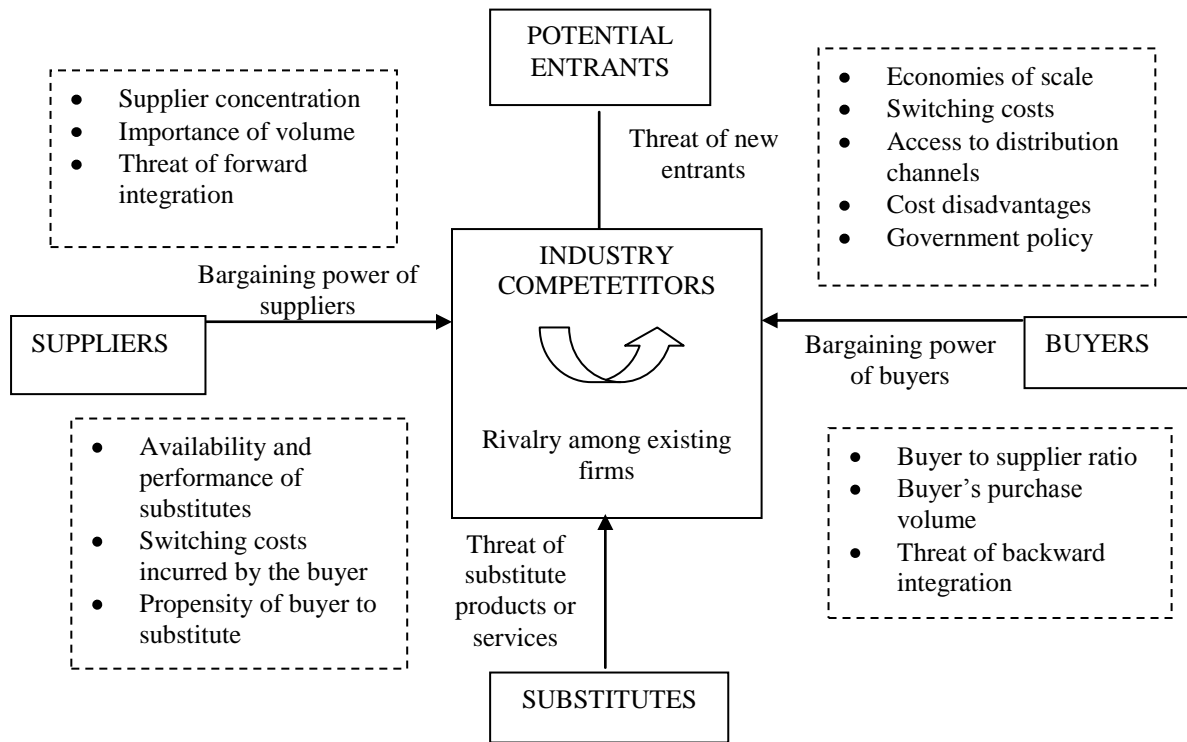
Threats of New Entrants

New companies often bring new resources and can drive down product prices and reduce profitability of the industry (Porter, 1980). Therefore, existing firms try to raise the threats for new entrants. The threats for new entrants are increased when 1) incumbent players have achieved economies of scale, 2) switching costs are high, 3) there is a limited access to distribution channels, 4) there is cost disadvantage, and 5) government policy is favorable to the domestic firms (Porter, 1980). Following is a discussion of these entry barriers for foreign retailers planning to enter the Indian apparel retailing industry.

Scale Economies

When existing firms achieve significant scale economies, it becomes difficult for new entrants to be competitive. Porter (2008) outlines two types of scale economies that can act as barrier to entry: supply-side and demand-side scale economies. Supply-side scale economies arise when firms with large production volumes enjoy lower costs per unit by spreading fixed costs over more units, utilizing more efficient technology, or demanding better terms from suppliers (Porter, 2008). Although Indian retail sales are dominated by unorganized retailers, they are mostly small mom and pop stores which have little buying power or ability to achieve scale economies (Sternquist and Gupta, 2007). In contrast, the size of organized domestic retailers' operations is relatively large, offering a wide range of categories including apparel, shoes, and home décor. The large domestic retailers have achieved supply-side scale economies through their large order volume and extensive market presence. Nevertheless, the structure of the supporting industries (i.e., textile and apparel manufacturing) has deterred further scale benefits. Indian textile sectors (especially the weaving industry) and apparel manufacturing sectors are plagued by high fragmentation with small production units scattered across the country

(Rangarajan, 2007), leading to poor modernization and limited marketing capabilities to attract apparel retail chains who wish to achieve scale economies.

Demand-side scale benefits, also referred to as network effects, arise with the increase in customers' willingness to pay for a company's products. Buyers (customers) tend to trust larger firms due to their large customer base, preferring to be part of a large network of customers (Porter, 2008). Demand-side scale benefits discourage new entrants by lowering customers' willingness to buy from newcomers in a market and by lowering the price new firms can command until they can develop a large network of customers (Porter, 2008). Large domestic retailers in India may enjoy network effects due to their early presence in the market, established customer base, and depth of knowledge of the Indian consumers. These large domestic retailers have safeguarded their position in the increasingly competitive market by aggressively expanding their geographic presence (IBEF, 2008) or by building relationships with foreign brands to identify niche segments for further expansion (Nuvo, 2007). Thus, foreign retailers may enter the market on a large scale or penetrate the market by marketing the uniqueness of western products and the emotional or symbolic value of foreign brands (Kumar *et al.*, 2008).

Switching Costs

Switching costs refer to the cost for the buyer (retailers) in switching from one supplier to another (Porter, 1980).High switching costs deter new entrants from entering the market. When a buyer switches vendors, the change may require altering product specifications, processes or information systems, and retraining employees to be familiar with a new product, process, or system, resulting in increased costs for the buyer (Porter, 2008). However, apparel manufacturing is labor intensive and usually does not require heavy investments in specialized equipment,

leading to low switching costs. Moreover, foreign apparel retailers may be encouraged to switch to local suppliers because the Indian textile industry has vendors capable of catering to the sophisticated needs of foreign retailers. For instance, the Indian textile industry ranks seventh in the world production and trade of textiles and it is one of the most important sectors in the Indian economy with a growth rate of 20% per year (Saluja, 2008). It is the world's largest producer of jute and the second largest producer of cotton, silk and cellulosic fiber. It also ranks fifth in man-made fibers production and sixth in clean wool production (CITI, n.d.). These impressive figures largely result from the industry's inherent strengths, including availability of a competitive labor force and of rich raw materials (Saluja, 2008). A number of foreign retailers have chosen India as a sourcing destination for their products. Foreign apparel firms currently sourcing from India include Gap, Wal-Mart, Tommy Hilfiger, and Nike (Sarkar, 2009). Walmart has established global procurement offices in Bangalore that serve as a hub to source diverse categories including home textiles and apparel for their stores across the world (Walmart Corporate, 2010).

Access to Distribution Channels

Access to distribution channels refers to accessible resources that a new entrant can use to distribute its product (Porter, 1980). The primary distribution channel for apparel retailers is retail space in the form of specialty stores, department stores, or shopping malls. While all of these formats are present in India, mall space has grown rapidly in big cities (Batra and Niehm, 2009). Significant investments are being made for further development of malls across metros and high growth cities, including Ahmedabad, Chandigarh, and Surat. To meet fast growing demand for global luxury brands among Indian consumers (Narayan, 2006), many projects are in the pipeline to attract more foreign brands. India's first luxury mall, UB City,

was built in Bangalore in 2008, housing well-known luxury brands including Louis Vuitton, Gucci, Dunhill, Fendi, Mont Blanc, Rolex, and Omega (UB City, n.d.). Several other luxury malls that have recently opened include DLF Emporio in Delhi, Palladium in Mumbai, and Bergamo in Chennai.

Although the specialty store format has steadily increased, the growth rate of malls has shadowed its development. Furthermore, retailers who wish to operate in a standalone specialty store format may face a challenge due to high real estate costs in most Indian cities as well as multiple regulations on land usage (Halepete *et al*., 2008). Major Indian cities experienced a sharp rise in real estate costs after the trade liberalization. In 1996, Mumbai was reported to have the world's highest real estate prices, with office rents higher than those in Paris, New York, London, Tokyo and Hong Kong (Nijman, 2000). Although there has been a significant decline since the steep rise in 1996, the costs in tier 1 cities such as Mumbai and Delhi are still expensive from a global comparative perspective (Jog, 2010). While shopping malls in India are expanding, the availability of land in the large cities is rapidly decreasing and market participation by domestic and foreign retailers is increasing, thereby driving up the real estate cost for retailers (Halepete *et al*., 2008).

Cost Disadvantages (Independent of Size)
Regardless of the size of a firm, new entrants may have cost disadvantages in terms of access to raw material, location, government subsidies, and experience (Porter, 1980). The most prominent cost disadvantage for foreign retailers in India relates to retail locations and local experience. Large domestic retailers in the organized sectors are making the most of the retailing boom in the Indian market. They are investing in real estate to secure prime retail locations or achieve an early mover's advantage (IBEF, 2008). Moreover, domestic retailers have gained incumbency advantages due to their better understanding and cumulative experience of serving the

culturally and geographically diverse Indian market (Sternquist and Gupta, 2007). Cultural diversity is a critical entry barrier for foreign retailers. For example, while working women and younger generations in large cities are showing greater interest in ready-made apparel and western styles (Halepete and Iyer, 2008), a large percentage of traditional Indian women still prefer to wear saris (Batra and Niehm, 2009), which require custom-made blouses that are often made by local tailors. Foreign retailers must be mindful of demographic and geographic differences between different market segments to better position themselves in India.

Unorganized retailers in India have also enjoyed incumbency advantages due to location and government protection. Approximately 95% of total retail sales in India are generated from unorganized sectors despite their limited merchandise assortment and poor shopping environment (Goswami and Mishra, 2008). Many Indian consumers still prefer to shop at unorganized retailers due to geographical proximity to their home and high level of services (Goswami and Mishra, 2008). Moreover, the Indian government has traditionally favored small retailers in unorganized sectors by excluding them from taxation, leading to the growth of their market share and to proliferation of a gray market due to the price differences between the organized and unorganized retailing sectors (Sternquist and Gupta, 2007). However, these retailers are facing challenges because the government is working towards phasing out the traditional taxation policy that favored unorganized retailing (Dimri, 2009).

Government Policy

Government policy can be a direct or indirect entry barrier. For example, licensing requirements and restrictions on foreign investments can be direct barriers, whereas regulations on land, environment, or safety may be indirect barriers (Porter, 2008). Before 1997, there was no regulation

restricting foreign investment in India (Dutta and Saxena, 2009). Therefore, foreign companies (e.g., Adidas, Benetton, Levis, and Reebok) could operate in the Indian market via high control entry modes such as joint ventures or wholly owned subsidiaries (see Table 1). In 1997, because of concerns about the outflow of foreign exchange and as a means of protecting the unorganized retailers from foreign competition, the Indian government restricted the FDI (The Financial Express, 2006). Accordingly, as shown in Table 1, foreign apparel brands that entered the Indian market during this time selected licensing and franchising as a mode of entry (Biswas, 2006).

Table 1. Foreign Brands in India

Company	Country of Origin	Year Entered	Entry Mode
1991 ~ 1997 Trade Liberalization			
Lacoste	France	1990s	Licensing
Van Heusen	US	1990s	Licensing
Vanity Fair	US	1990s	Licensing
Adidas	Germany	1990s	Joint Venture
Benetton	Italy	1991	Wholly owned
Lee	US	1993	Licensing
Arrow	US	1993	Licensing
Levis	US	1994	Wholly owned
Nike	US	1995	Licensing
Jockey	US	1995	Licensing
Reebok	Germany	1995	Joint Venture
1997 ~ 2005 Trade Restriction in FDI			
Puma	Germany	Post 1999	Licensing
Aldo	Canada	Post 1999	Franchising
Versace	Italy	Post 1999	Franchising
Guess	US	Post 1999	Franchising
Hugo Boss	Germany	Post 1999	Franchising
Mango	Spain	Post 1999	Franchising
Marks & Spencer	UK	2001	Franchising
Nine West	US	2002	Franchising
Tommy Hilfiger	US	2004	Franchising
Espirit	US	2005	Franchising
Since 2006 Trade Deregulation in Retailing			
Diesel	Italy	2006	Joint venture
Nautica	US	2006	Joint Venture
Gucci	Italy	2007	Franchising
Walmart	US	2007	Joint Venture
DKNY	US	2009	Licensing
Burberry	UK	2009	Franchising
Zara	Spain	2010	Joint Venture

Source: Adapted from Dutta and Saxena (2009)

In 2006, the government introduced relaxed FDI policies in retail sectors, allowing joint ventures with up to 51% ownership in retail trade of single brand products, and wholly owned subsidiaries for wholesale trade in the cash and carry retail format (DOC, 2006). The deregulated FDI policies have allowed retailers to redesign their expansion strategies or enter the market with higher control entry modes. Although the current regulations still restrict the entry of multi-brand retailers in terms of entry modes and

retail format decisions, such relaxations in retail trade have created enormous opportunities for foreign retailers, allowing them to move from low control entry modes to ownership modes. For example, Walmart entered India in 2007 via a joint venture with India's leading business Bharti Enterprises (Walmart Corporate, 2009). ZARA entered India in 2010 via a joint venture with Tata Group's retail arm Trent (Menon, 2010). Many existing foreign brands (e.g., Wrangler, Adidas, Lee, Marks & Spencer, Nautica, and Gucci) have changed their business format to joint ventures to gain more flexibility and control over retail management and operations (Dutta and Saxena, 2009). Furthermore, the Indian government has allowed foreign companies that set up manufacturing facilities in India to sell the products in the domestic market in the form of franchising, local distributors, existing Indian retailers, or own outlets (Singh, 2009). For example, Levi's and Benetton have manufacturing bases in India, selling their products under wholly owned operations (see Table 1). The overall assessment of the threat of entry in India and main implications for foreign retailers are summarized in Figure 2.
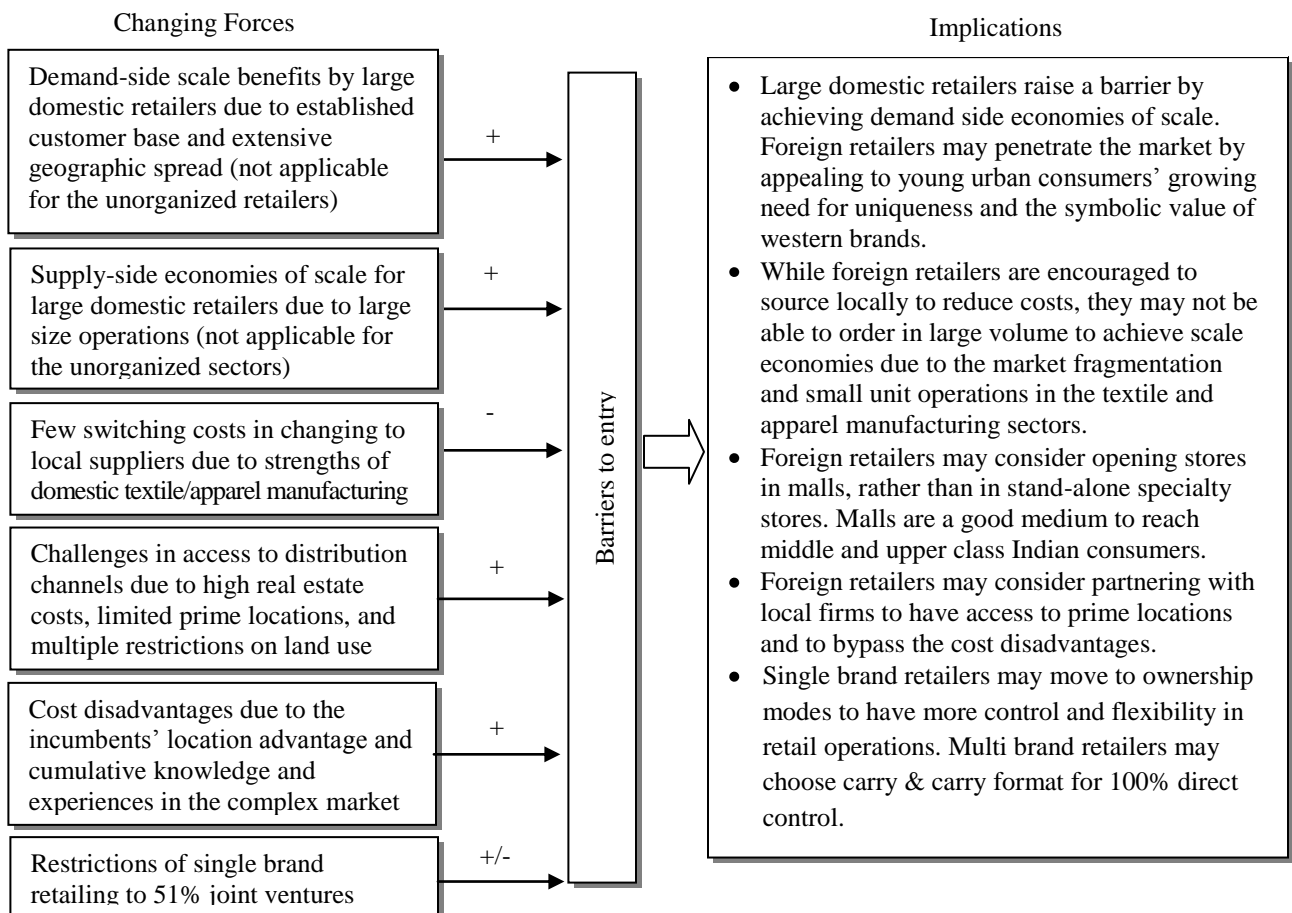
Changing Forces

Implications

Demand-side scale benefits by large domestic retailers due to established customer base and extensive geographic spread (not applicable for the unorganized retailers)	+
Supply-side economies of scale for large domestic retailers due to large size operations (not applicable for the unorganized sectors)	+
Few switching costs in changing to local suppliers due to strengths of domestic textile/apparel manufacturing	-
Challenges in access to distribution channels due to high real estate costs, limited prime locations, and multiple restrictions on land use	+
Cost disadvantages due to the incumbents' location advantage and cumulative knowledge and experiences in the complex market	+
Restrictions of single brand retailing to 51% joint ventures	+/-

Barriers to entry

- Large domestic retailers raise a barrier by achieving demand side economies of scale. Foreign retailers may penetrate the market by appealing to young urban consumers' growing need for uniqueness and the symbolic value of western brands.
- While foreign retailers are encouraged to source locally to reduce costs, they may not be able to order in large volume to achieve scale economies due to the market fragmentation and small unit operations in the textile and apparel manufacturing sectors.
- Foreign retailers may consider opening stores in malls, rather than in stand-alone specialty stores. Malls are a good medium to reach middle and upper class Indian consumers.
- Foreign retailers may consider partnering with local firms to have access to prime locations and to bypass the cost disadvantages.
- Single brand retailers may move to ownership modes to have more control and flexibility in retail operations. Multi brand retailers may choose carry & carry format for 100% direct control.

Figure 2. Summary assessment of threats of new entrants in the Indian apparel retail industry

Buyer power accrues with lower buyer-to-supplier ratio, large purchase volume, and high threat to integrate backward (Porter, 1980). The Indian retail sectors are characterized by high buyer-to-supplier ratio with the highest density of retail outlets in the world, seemingly making India a supplier's market. There are

approximately15 million outlets, of which 12 million are unorganized retailers (Halepete and Iyer, 2008). However, the discussion of buyers' bargaining power should be separated by retail sectors due to significant differences between organized and unorganized retailers in India (Sternquist and Gupta, 2007). Retailers in the organized sectors in India are characterized by large size, differentiated products, high purchase volume, and greater geographical spread and revenue, thus creating a buyers' market. By contrast, unorganized retailers are characterized by small size, undifferentiated products, and small purchase volume and revenues, factors limiting their market capability and the number of suppliers from which to choose, thus creating a sellers' market (Sternquist and Gupta, 2007).

A buyer may gain power if there is a possibility of integrating backwards (Porter, 1980). As discussed previously, most foreign apparel brands in India initially entered the market in the form of licensing or franchising due to the government restrictions (Biswas, 2006) as well as to the significant cultural differences between the host and home countries (Sternquist, 2007). Although the Indian retailing sectors have been deregulated since 2006, the complexity of the Indian market and lack of experience with diverse local markets may discourage foreign retailers' capital investment in backward integration. However, as discussed earlier, the government's encouragement of local sourcing and manufacturing, together with the availability of low cost labor and raw materials, are likely to increase foreign apparel firms' intentions of backward vertical integration as the Indian economy is rapidly growing and providing great market opportunities. Figure 3 summarizes the above assessment of bargaining power of buyers in the organized apparel retail sectors in India.
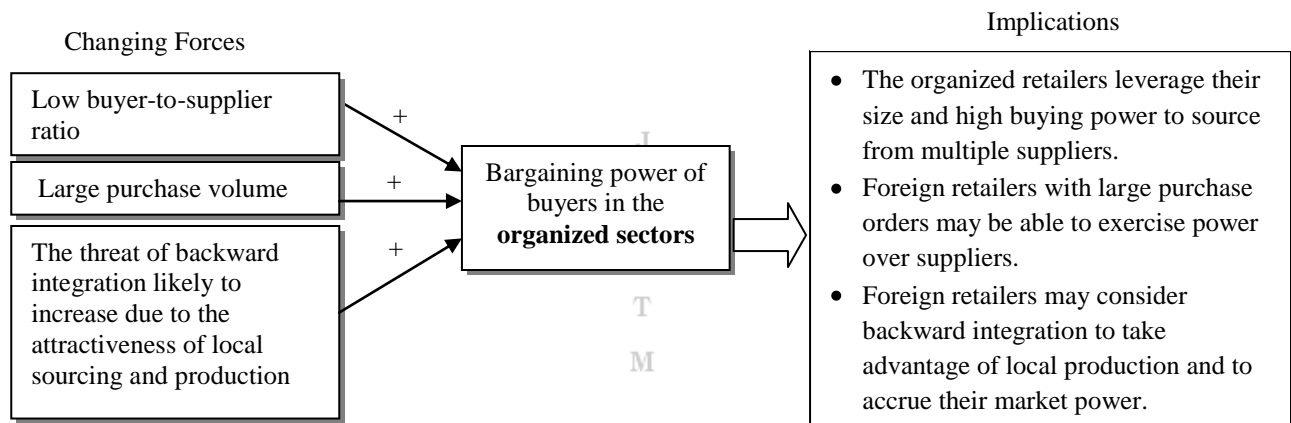
Changing Forces

Implications

Figure 3. Summary assessment of bargaining power of buyers in the Indian apparel retail industry

Bargaining Power of Suppliers

The bargaining power of suppliers depends on the level of supplier concentration, importance of volume, and threats of forward integration. Suppliers are powerful when they are concentrated and there is a high threat of forward integration, affecting the buyer's ability to achieve profitability (Porter, 1980). Textile and apparel manufacturing sectors in India are highly fragmented and characterized by a high density of suppliers, mostly operating independently on a small scale (Saluja, 2008). The fragmented structure of these sectors diminishes the power of Indian

suppliers due to the lack of capability to achieve scale economies (Sternquist, 2007). However, there are also a few large domestic suppliers operating in the Indian market. For example, the Raymond group, incorporated in 1925 as a textile manufacturer, has grown its operations to include several apparel retail companies. The Tata group has over 90 businesses in seven industry sectors, including information technology and communication and consumer products, and has pursued acquisitions of well-known brands including Jaguar and Land Rover (Tata, n.d.). These examples suggest that a few large domestic suppliers may have accrued the power and the capital to pose a threat for forward integration into the retail industry, thus being strong competitors for foreign retailers. Figure 4 presents a summary assessment of power of suppliers in India.
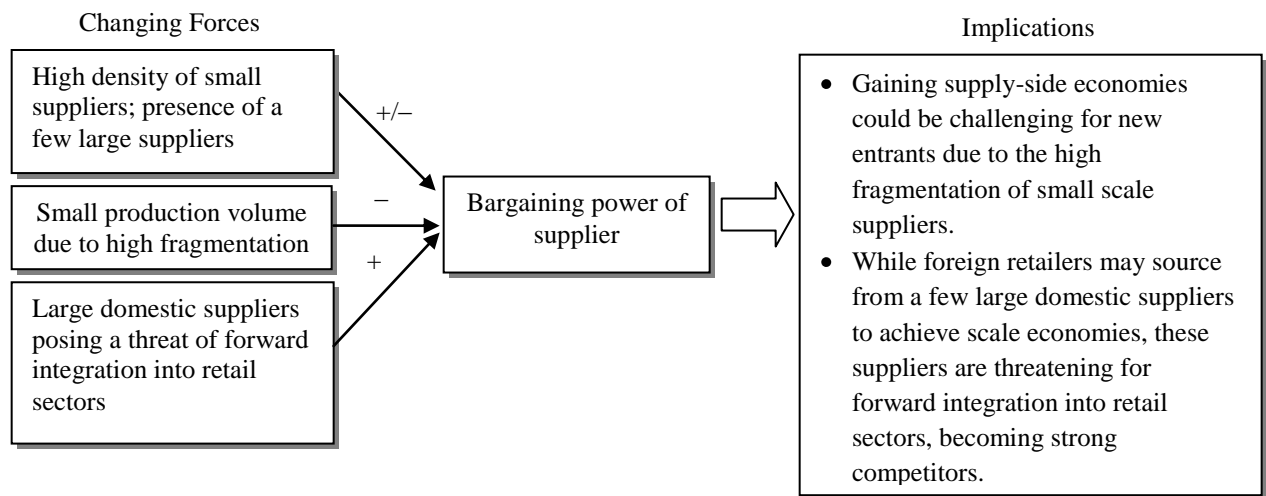
Changing Forces   Implications

High density of small suppliers; presence of a few large suppliers

+/−

Small production volume due to high fragmentation

−

+

Large domestic suppliers posing a threat of forward integration into retail sectors

Bargaining power of supplier

- Gaining supply-side economies could be challenging for new entrants due to the high fragmentation of small scale suppliers.
- While foreign retailers may source from a few large domestic suppliers to achieve scale economies, these suppliers are threatening for forward integration into retail sectors, becoming strong competitors.

Figure 4. Summary assessment of bargaining power of suppliers in the Indian apparel retail industry

Threat of Substitutes

The threat of substitute products can be evaluated in terms of the availability and performance of substitutes, switching costs incurred by the consumer, and propensity of the consumer to substitute (Porter, 1980). There is a high threat of substitutes in the Indian apparel sectors due to its unique market structure. Indian apparel consumers have an array of options to shop, including small unorganized retailers and large organized retailers for domestic and foreign brands. Homemade or custom-made clothing from local tailors is another substitute for Indian consumers due to the availability of low cost fabrics (Datamonitor, 2009). The presence of large numbers of tailors in all Indian cities makes custom-made clothing an attractive alternative to readymade garments.

Moreover, the proliferation of a gray market for domestic and foreign brands poses a serious threat of substitutes for both existing players and new entrants. Foreign retailers (e.g., Benetton and Levis) have reduced the threat of substitutes by providing strong brands and differentiated products and store environments. However, given that a significant portion of Indian women are inclined towards traditional clothing, foreign retailers may consider incorporating conservative designs and local tastes into their product lines. Small domestic retailers are also taking steps to increase their competitiveness by embracing a self-service format to appeal to changing Indian consumers (Sengupta, 2008). These indicators also demonstrate the increased competition among existing players and a need for new entrants to deliver better and unique value to attract the Indian consumers.

Additionally, the retail options available for apparel shopping for Indian consumers may reduce the switching cost incurred by the buyer (consumer). Domestic retailers are increasingly becoming competitive in terms of their products and services (Kumar *et al.*, 2008). Indian consumers tend to be very price- and value- driven, presenting a high propensity to substitute the next door unorganized retailer due to the geographic location, cultural proximity of their offerings

(Sinha and Banerjee, 2004; Goswami and Mishra, 2008), and low priced merchandise resulting from their tax exemption and low cost operations (Strenquist and Gupta, 2007). Foreign retailers will need to offer more competitive brand products with better value and performance in order to stimulate Indian consumers' propensity to substitute to their brands. Accordingly, the assessment of this competitive force is summarized in Figure 5.
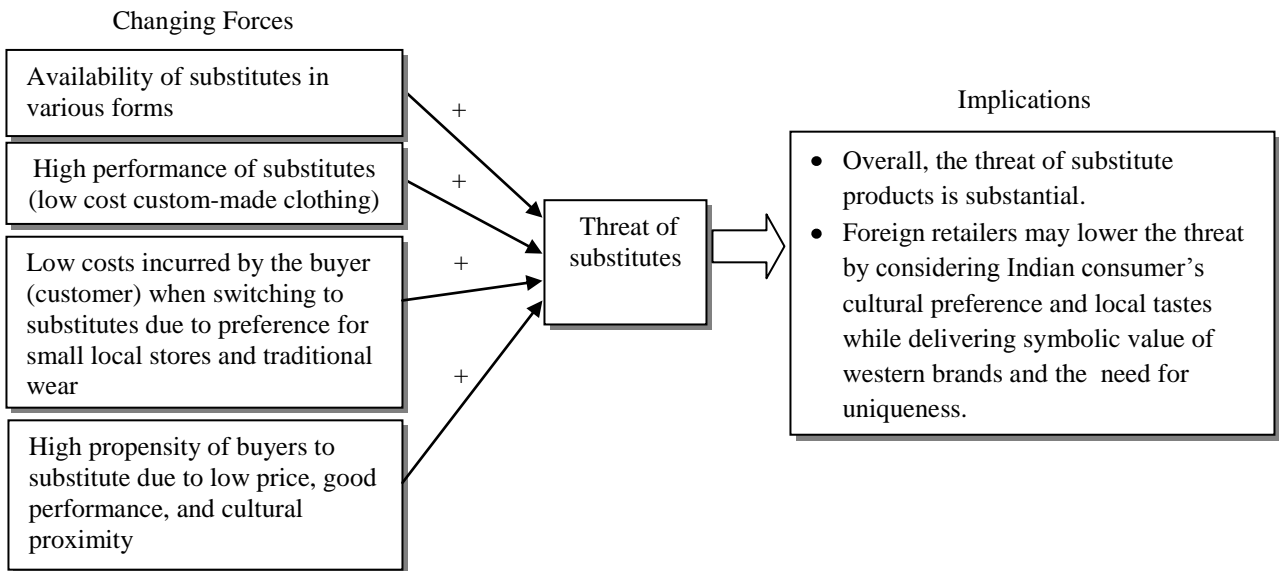
Changing Forces

Figure 5. Summary assessment of threat of substitutes in the Indian apparel retail industry

Intensity of Rivalry

The intensity of rivalry is determined by industry growth, industry concentration, diversity of competitors, and product differences. High rivalry within an industry drives down the profitability of an industry by influencing prices and costs of competition (Porter, 1980). While high intensity of rivalry makes an industry less attractive, a fast-growing market creates opportunities for revenues (Porter, 1980). Since the 2006 trade liberalization, the Indian apparel retail industry has led an influx of foreign retailers into the market. The industry value in this sector has grown from $22.3 billion in 2006 to $27 billion in 2008, showing an approximately 21% increase within 2 years (Datamonitor, 2009).

Immense growth opportunities have led to the entry of large number of players in the market, increasing competition (Johnson and Tellis, 2008).

Industry concentration refers to the number of companies competing in the same markets. Rivalry is intensified if these companies have similar market shares, thus destroying profitability (Porter, 1980). Unorganized retail sectors in India consist of a large number of mom and pop stores competing in similar markets. Although organized retail only accounts for approximately 5% of the market, the number of domestic and foreign retailers in the organized sectors is also rapidly growing. It is estimated that this number will grow at a compound annual growth rate of 40% from

$20 billion in 2007 to $107 billion by 2013 (Ghosh *et al*., 2010). There has been a surge in incoming foreign retailers which has also changed the nature of domestic rivalry. To drive the nature of competition in a positive direction, foreign retailers may avoid competing on the same market by focusing on specific customer segments and offering unique products, services, and brand identities (Porter, 2008).

The presence of different types of retailers in India (i.e., foreign retailers, domestic organized vs. unorganized retailers) creates diversity in competition. Foreign and domestic retailers in the organized sectors are competing on large size, broad assortment, self-service format, and pleasant store environment (Ghosh *et al*., 2010). Largely due to the current ban on multi-brand retailers, department store and hypermarket formats are dominated by domestic retailers. Foreign retailers mainly operate in shopping malls or in specialty stores. The number of shopping malls and retail chains is rising as large retailers are improving their supply chains and expanding their geographical spread to gain market access (IBEF, 2008).

Product differentiation can increase profitability by creating lesser rivalry in the market, and delivery of customer value though non-price competition, such as product features, services, delivery time, or brand image, is less likely to erode profitability (Porter, 2008). Large domestic

retailers are improving their strategies by carrying more SKUs and embracing the self-service format (Sengupta, 2008). Unorganized retailers, with no financial capabilities for improving store environment, offset these limitations by offering high levels of service and forming close relationships with their customers (Srivastava, 2008). Smaller retailers are moving towards organized formats by including branded merchandise in their offerings or by acquiring licensing or franchising agreements with popular foreign brands.

The presence of foreign retailers and increased competition create product diversity and innovation in the market. While foreign apparel retailers cater to young, urban consumers by bringing in innovativeness and product difference of western styles, domestic retailers provide fusion wear (mixing western and Indian styles) and traditional apparel. Brand proliferation and adoption of western attire are higher for men's clothing than women's clothing, with branded ready-to-wear men's clothing accounting for 40 percent of their total purchases (Batra and Niehm, 2009). Although the deregulation of FDI offers better opportunities than ever, the government is still safeguarding the domestic industry by appending some restrictions, limiting diversity in competition and delaying further development of the retail industry. The summary assessment of intensity of rivalry is presented in Figure 6.
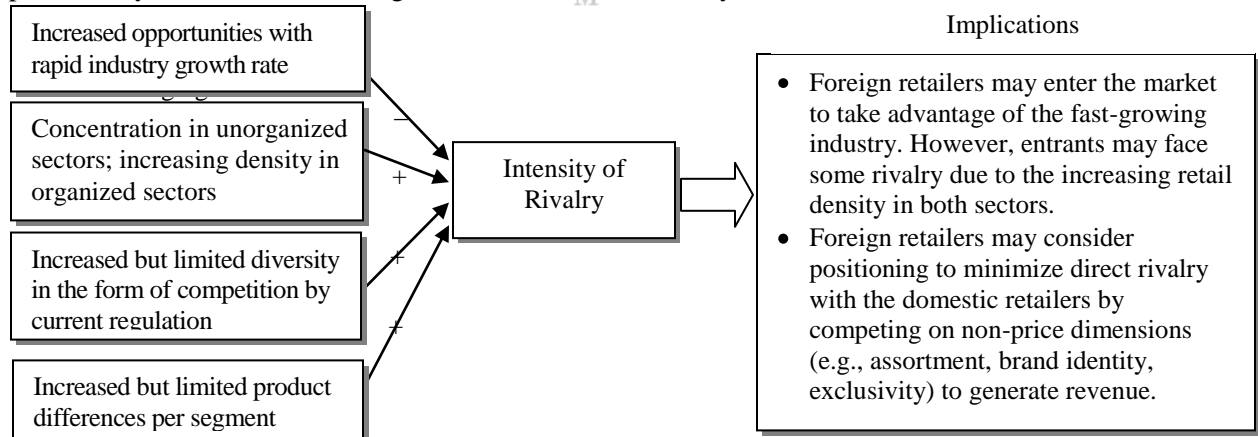
Implications

Boxes		
Increased opportunities with rapid industry growth rate	−	
Concentration in unorganized sectors; increasing density in organized sectors	+	Intensity of Rivalry
Increased but limited diversity in the form of competition by current regulation	+	
Increased but limited product differences per segment	+	

- Foreign retailers may enter the market to take advantage of the fast-growing industry. However, entrants may face some rivalry due to the increasing retail density in both sectors.
- Foreign retailers may consider positioning to minimize direct rivalry with the domestic retailers by competing on non-price dimensions (e.g., assortment, brand identity, exclusivity) to generate revenue.

Figure 6. Summary assessment of intensity of rivalry in the Indian apparel retail industry

Conclusions and Implications

The 2006 trade relaxations in retail sectors have opened a gamut of opportunities for foreign retailers, who can now enter the Indian market via greater control entry modes. Rapid changes in the Indian apparel retail industry since the deregulation of FDI require a critical analysis of the industry's competitive structure and the bearings of each firm to assess whether it can defend itself from the emerging competitive forces and to identify opportunities for further expansion (Porter, 2008).

The overall assessment of the five competitive forces indicates that the Indian apparel retail sectors pose a relatively low level of threats of entry with a fast industry growth rate and a growing income and demand for western brands. However, there are several challenging forces that require some caution from foreign apparel retailers. First, foreign retailers can woo the swelling urban middle and upper class segment with its growing income by marketing the unique and symbolic value of foreign brands in order to satisfy this segment's need for status and uniqueness (Kumar *et al*., 2008). While foreign retailers may penetrate the younger urban consumers who appreciate western lifestyles and are aware of popular western brands, foreign apparel retailers must be mindful that the Indian market, with its immense cultural and geographical diversity, has a unique personality and demands a local perspective from the global brands operating in India. Foreign retailers may consider acculturating this segment to western clothing by introducing styles that merge conservative versions of western styles with ethnic inspirations, such as tunics for women with ethnic prints. Second, foreign retailers may bypass some of cost disadvantages from the incumbent players by partnering with domestic retailers who have secured prime locations. This strategy can also allow foreign retailers to overcome cultural challenges resulting from lack of knowledge and experience in understanding local tastes and the complexity of the Indian market.

Moreover, as Porter (2008) points out, a high growth rate may not drive up profitability if substitutes are attractive to customers. Our assessment indicated that, among other forces, the threat of substitutes in the Indian apparel industry is substantial due to the availability of various substitutes at lower cost at more convenient locations in a more culturally familiar way. Lastly, increasing industry density and the regulated retail environment have put pressure on the profitability of the Indian apparel retail industry as the rivalry between domestic and foreign retailers is growing. Foreign retailers entering the Indian market should carefully design their strategies to position themselves against the forces that favor domestic retailers in both organized and unorganized sectors. Providing strong brands and differentiated products and store environments would be essential for them to lower the threats of substitutes and growing rivalry in the Indian apparel retail industry.

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