

A Study on Franchise Model of Leading Apparel Brands in Ahmedabad and North Gujarat

Prashant Pareek*

*Assistant Professor
MBA, N.R. Institute of Business Management
Gujarat Technological University, India

Abstract

The business model of franchising is rapidly becoming popular among retailers in India. With a growth rate of 25-38% per annum, the current market size of the industry is about 32,400 crore rupees with an expectation to grow to 90,000 crore by 2013. Education services lead the industry followed by food and beverage services. Fashion and lifestyle retailing are also becoming popular. However with a present share of 8.4%, the apparel franchise market shows enough promise. If we compare it to the overall organized apparel retail market it is around 7.7%. Footwear constitutes 3% of the total franchise market which represents 9% of the organized footwear segment.

The apparel retail industry is one of the most franchised fashion concepts. The market size, segmentation, retail trends as well as the growth projections concludes that men's wear apparel segment observes the maximum franchise activity. The kid's wear franchise activity presently at 25% is expected to increase in near future. Business format franchising is expected to increase in this segment. This paper discusses franchise model considerations as well as its various implications, including the minimum guarantee model which is slowly losing importance as the franchisors seek operational efficiency along with visibility and penetration.

Keywords: Apparel Brands, Franchise Model, Minimum Guarantee Amount, Retail Trends, Readymade Garments

Introduction

The Indian apparel market is currently pegged at around Rs 140000/- crore growing at a CAGR of 12 per cent. With high growth rate, the industry provides employment to 4.5 million workers directly while to another 4 million indirectly. According to Net scribes, a knowledge consulting and solutions firm, the apparel industry accounts for nearly 26 per cent of the country's exports and is the second largest retail industry representing approximately 10 per cent of the total market.

In the high growth fast changing retail clothing market, we see significant growth opportunities for both foreign and domestic players, franchising is the key to this growth in an inclusive sense as franchisors have included in its fold training and orientation of the franchisee and his team in manoeuvring sales and imprinting brand name in the minds of customers. Franchising is the practice of using another firm's successful business model. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business.

Changes in economy and lifestyle all over the globe have led to an increase in sales of clothing, shoes, jewellery and accessories which makes this a great

industry to try to get into, particularly on a franchise level. People buy clothing, shoes and accessories quite often based on a brand name. When you buy into a franchise, you are getting that brand name with it so you are already a step ahead. Thus, this sector offers lucrative franchising opportunities with people willing to spend adequate amount of money on clothes and accessories. As consumers want the best clothes for themselves they are ready to make investments too. This paper has been prepared from primary data by covering seven cities of north Gujarat (mentioned in the scope of study) to understand the franchise model of leading apparel brands and if any apparel brand is planning to give franchise rights then what are the basic requirements which need to be taken care of in these seven cities. This paper evaluates the current situation of franchise model of apparel brands in Ahmedabad and in other tier-II and tier-III cities of north Gujarat.

Research Methodology

Research Objectives

This research have been undertaken to fulfill following objectives:

- To study the current franchise model of leading apparel brands in Ahmedabad and north Gujarat
- To compare these brands in terms of their franchise requirements
- To understand how franchise model of these brands differ geographically in Ahmedabad and north Gujarat
- To know the satisfaction level of franchisees towards the parent brand
- To know what kind of support parent brands give to the franchisees

Scope of The Study

Keeping in mind the purpose to understand the current franchise business in Gujarat of leading apparel brands, visit to cities like Ahmedabad, Gandhinagar, Himmatnagar, Palanpur, Mehsana,

Kalol, and Kadi has been made to know how the terms & conditions of franchise differ in different cities of Gujarat & franchisee satisfaction towards brand.

Type of Data

Primary Data

Data collected through personal interview of the store manager / owner of the franchise outlet to understand the terms & conditions of the franchisor while they are offering the franchisee

Contact method

Personal Interview

Research Tool

Questionnaire

Sampling

Sampling Size

34 Apparel franchises outlet in Ahmedabad & North Gujarat

Sampling Technique

Non Probability with convenience sampling i.e. if an apparel brand had more than one franchise in a particular city then only one franchise had been visited to understand the franchise model of that apparel brand the seven cities had also been selected on the basis of convenience of researcher

Sampling Unit

Store Head / Owner of the franchise

Type of Research

Descriptive Research to describe the essential components of a franchise and the competitive actions of apparel brands to satisfy the franchisees and to promote the brand name in the given area. This paper also describes the various aspects of franchise model of apparel brands

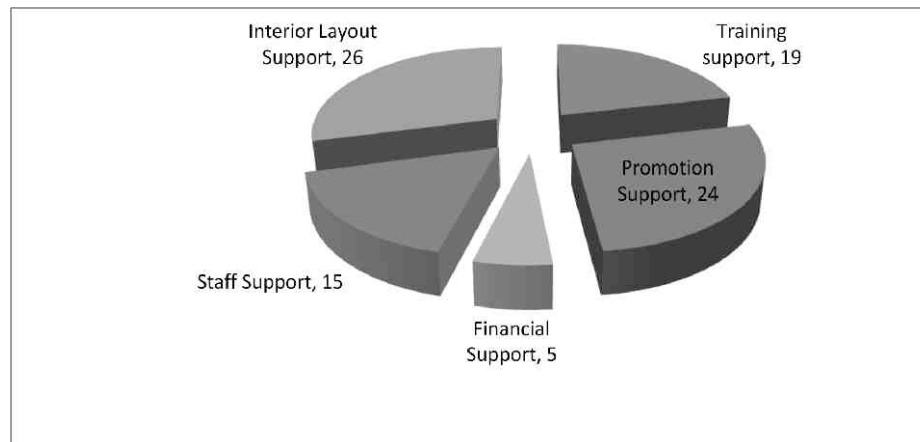
Analysis of Data

Table- 1 (Franchise outlets of following brands had been visited)

Sr No	Name of Franchise	City
1	Levis	Ahmedabad
2	Status Que	Ahmedabad
3	Tommy Hilfiger	Ahmedabad
4	United color	Ahmedabad
5	Koutons	Ahmedabad
6	Color plus	Ahmedabad
7	Weekender	Ahmedabad
8	Belmonte	Ahmedabad
9	Raymond	Ahmedabad
10	Vimal	Ahmedabad
11	Reid & Taylor	Ahmedabad
12	Shree Niketan	Ahmedabad
13	Ranjan Emporium	Mehsana
14	HiFi	Mehsana
15	Rupranjan Family Store	Mehsana
16	Ranjan Readymade Store	Mehsana

17	Vastra	Mehsana
18	Bold & Beautiful	Kalol
19	Barcelona	Kalol
20	TQS	Kalol
21	Blue Buddha	Kalol
22	B&Q	Kalol
23	Gotti	Kadi
24	Fastrack	Gandhinagar
25	Reebok	Gandhinagar
26	Club Fox	Palanpur
27	John Player	Palanpur
28	...	Palanpur
29	Blue Buddha	Palanpur
30	Beauty Garment	Himmatnagar
31	Green Fibres	Himmatnagar
32	Liver Pool	Himmatnagar
33	Radhika Palace	Himmatnagar

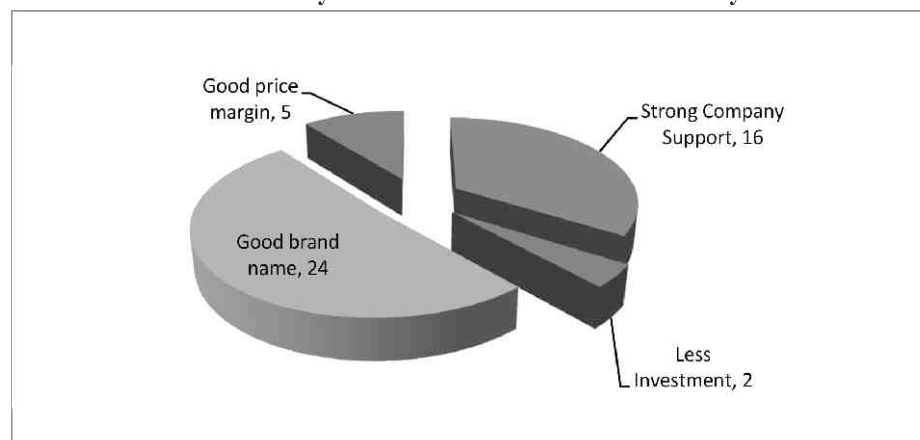
What kind of support do you receive from the franchisor?



Out of sample size of 34 outlets, 19 were receiving the training support, 26 were receiving the interior layout support, 15 were receiving the staff support, 24 were receiving the promotion

support, and 5 were getting the financial support from the side of franchisor

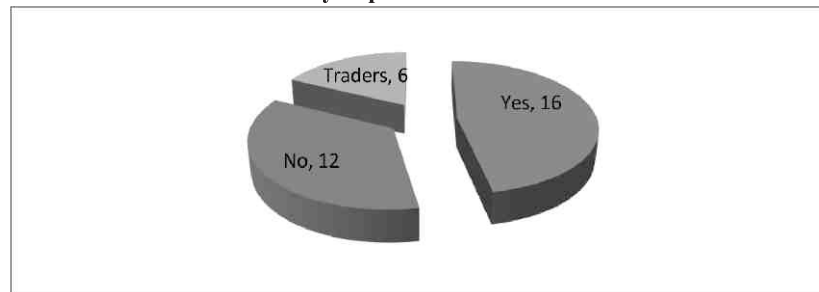
what made you to take franchise of this brand only?



Out of total sample size of 34 outlets, 24 respondents took the franchise of a particular brand because of its good brand name, 16 took the franchise of a particular brand because the franchisor

assured strong company support, 5 took franchise because they found good price margin in that brand, 2 took franchise because of less investment

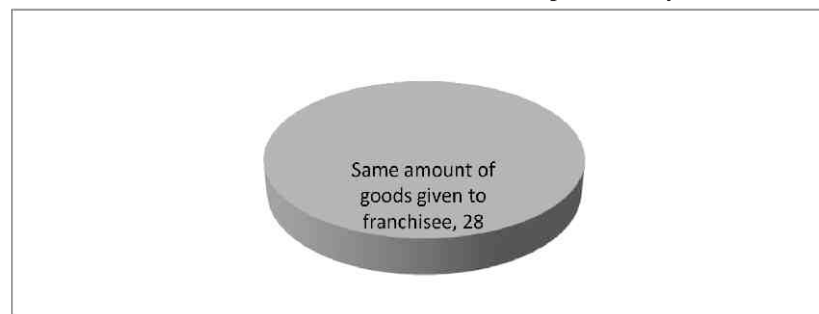
have you paid franchisee fee?



Out of 34 respondents 16 paid the franchise fee/ deposit, 12 had not paid any franchise fee or deposit, 6 were local traders who were

planning to take franchise

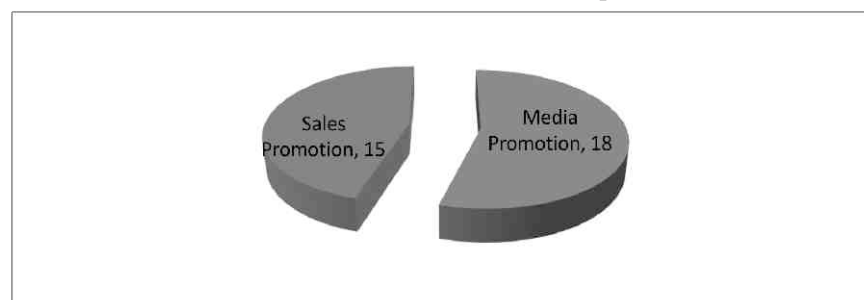
How that amount of the franchisee fee was compensated by franchisor?



Out of 34 respondents 28 replied that against the franchise fee same amount of goods were given to the franchise but in some

cases franchisor was providing more goods than the franchise fee

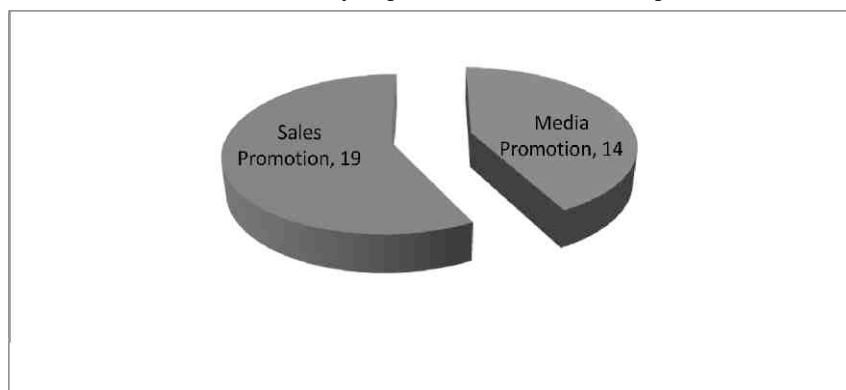
what is the role of the franchisor for the promotion?



Out of total 34 respondents 15 replied that their franchisor provides them sales promotion support and 18 replied that their franchisor provides them with media promotion support. In some cases either

the franchisor is bearing the whole cost or he will bear partial cost of the sales and media promotion

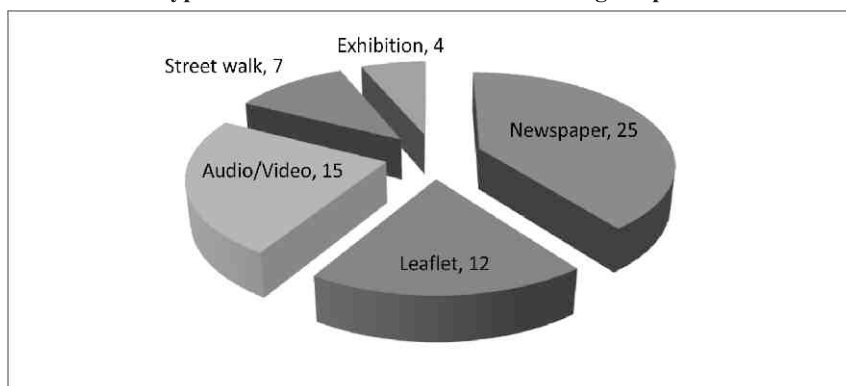
what additional efforts you put as franchisee for the promotion?



Out of total 34 respondents 19 were of the answer that we put extra effort to promote our store in our area and during weak season we

offer discount on our own to clear the stock, 14 were of the answer that we choose local media to target the local public

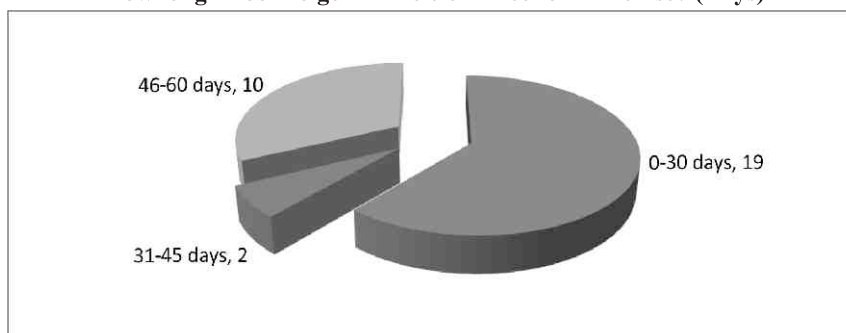
which type of media or tool franchiser are using for promotion?



Out of total 34 respondents 24 replied that their franchisor is using print media i.e newspaper to promote the brand, 15 replied that their franchisor is using audio/video for the promotion, 12 said leaflet is being distributed in the area where the store is located through newspapers, magazines, and handouts. 7 respondents said

that their franchisor arranges street walk in the area to promote the brand and the store, 4 replied that franchisor holds exhibition to promote the brand

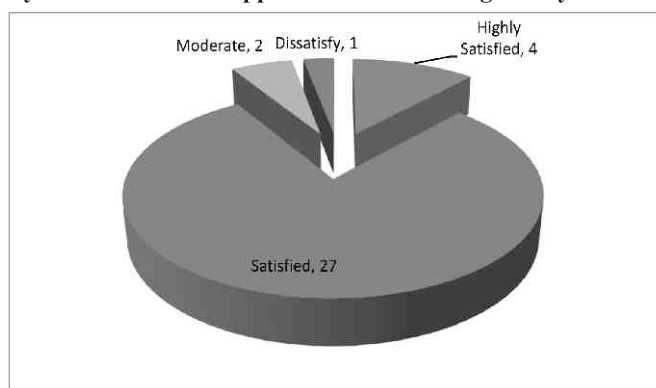
How long it took to get all the clearance for franchise? (Days)



Out of total 34 respondents 19 replied that it took 0-30 days for them to get all the clearances from the side of franchisor, 2 replied that it took 31-45 days for getting all the clearances and 10 replied that it took 46-60 days for them to get all the clearances. Generally

it depends on the franchisor's conditions if the franchisee is fulfilling all the conditions on time than the time period to get all the approvals will be reduced

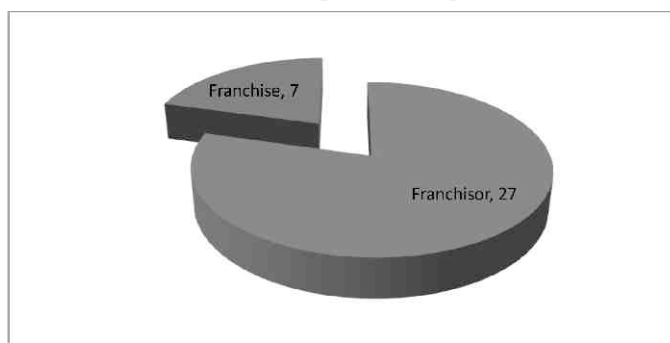
Are you satisfied with support & commitment given by franchisor?



Out of total 34 respondents 4 were highly satisfied with the support and commitment of their franchisor, 27 were satisfied with the support and commitment of their franchisor, 2 were moderately satisfied with the support and commitment of their franchisor, and

only 1 was dissatisfied with the support and commitment of the franchisor. This implies that majority of the apparel brands which give franchisee are providing good support and are committed to the franchisee in terms of the agreement.

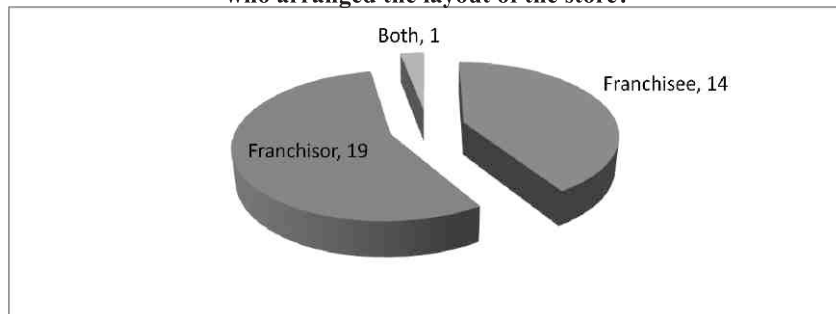
who decides the price of the product?



Out of total 34 respondents 27 replied that the price of the product is determined by the franchisor and 7 replied that franchisor gives

us flexibility to determine the price as per market forces.

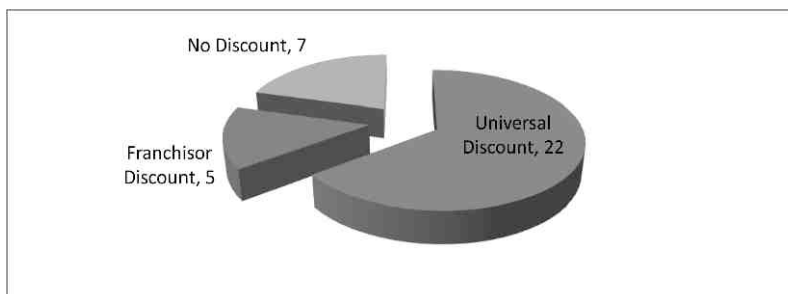
who arranged the layout of the store?



Out of total 34 respondents 19 replied that franchisor decides the layout of the store because of the standardization which he wants to have in the functioning, 14 replied that the franchisee decides the

layout of the store based on his preference, 1 was of the view that both the franchisor and the franchisee arranged the layout of the outlet.

How discount pattern work?



Out of total sample size of 34, 22 respondents replied that the discount pattern of franchisor is universal i.e. any discount scheme will be for all the franchisee outlets of the brand. 5 replied that they can give discounts on their own to clear the stock with the approval of the franchisor, 7 replied that no discount is allowed to the franchisee

Key Findings

Ahmedabad City

Vimal, C.G.Road

- Good brand name of Reliance Industries Ltd
- 40% margin is given to every franchisee
- Initial amount (franchisee fee) is taken from the franchisee of Rs. 20 Lacks & same amount of goods as stock is given to franchisee
- All the franchisee are connected with MIS & its centralize process for maintaining sales & purchase data

Koutons, C.G.Road

- Family store
- Initial deposit of Rs. 5 Lacks & given 1% interest every year to franchisee
- All the franchisee are connected with MIS & its centralize process for maintaining sales & purchase data
- Company is facing loss since few year, so can't maintain goods / stocks at franchisee
- Remuneration cost is bare by the company
- Commitment for franchisee: Rs. 2 Lacks /month & 10% commission on sale
- Initially they have to invest Rs. 25-30 Lacks

Weekender, C.G.Road

- Specialist in kids apparels
- Company has provided the SAP software to every franchisee for maintaining the stock & also track the

sales & purchase for every transaction

- Company is giving 10% margin to its franchisee

Belmonte, C.G.Road

- Rent of store is given by the company
- Initial investment: Rs. 20 lacks in stock
- All the franchisee are connected with MIS & its centralize process for maintaining sales & purchase data
- Company is providing the architect to every franchisee for preparing the layout of the store

Shree Niketan, C.G.Road

- Specialist in Sarees, dress materials & kurtis
- Company has not yet started the franchisee model
- Company is annually spending Rs2-4 lacks on advertisement
- Initially they will give Rs 50 lacks to Rs 1 cr stock to their franchisee

ColorPlus, C.G.Road

- Good brand name of Raymond company
- Its company own store, so all the initial investment is paid by the Raymond company
- Payment term: once goods sold than amount is given to the company

Reid & Taylor, C.G.Road

- Company is giving 1 month training to their franchisee
- 50% financial cost is beard by the company & rest by the franchisee
- Initial investment: Rs 2 cr which include all things regarding the franchisee
- Company is giving 15% - 18% margin to their franchisee
- 9 months credit is given to every franchisee in initial days

than on cash payment basis

Raymond, C.G.Road

- The store has all the variety of Raymond products
- All the franchisee are connected with MIS & its centralize process for maintaining sales & purchase data
- Initially they give on credit basis but after 6 months they are giving the products on the cash basis
- They are giving the club membership offers as sales promotion schemes to their customers

United Color Benetted, C.G.Road (Franchisee: Saffron Lifestyle Traders Pvt Ltd)

- Company has good product range for their customers
- If product is not sold in the store during season than it will be shifted to the company's Factory Outlet with discounts / schemes (i.e. schemes like Buy one get one free)
- Company helps in visual merchandizing

Levis, C.G.Road (Franchisee: Saffron Lifestyle Traders Pvt Ltd)

- Company has good product range for their customers
- If goods are not sold in the store during season than that will be shifted to the company's Factory Outlet with discounts / schemes (i.e. schemes like Buy one get one free)
- Company helps in visual merchandizing

Tommy Hilfiger, C.G.Road (Franchisee: Saffron Lifestyle Traders Pvt Ltd)

- Company has good product range for their customers
- If products is not sold in the store during season then that will be shift to the company's Factory Outlet with discounts / schemes (i.e. schemes like Buy one get one free)
- Company helps in visual merchandizing

Status Que, C.G.Road (Franchisee: Saffron Lifestyle Traders Pvt Ltd)

- Company has goods product range for their customers
- If products is not sold in the store during season than that will be shift to the company's Factory Outlet with discounts / schemes (i.e. schemes like Buy one get one free)
- Company is helps in visual merchandizing

Bombay Dying, Chandkheda

- Company deals in suiting-shirting, bed sheet segment
- Goods provided to the franchise is of double amount that is 14 lacks
- Franchise fee charged by the company is 7 lacks
- If one wants to have the franchise of Bombay dyeing then

the following criteria should be met by the prospective franchise

- Store size should be more than 500 square feet
- Initial target is given worth of Rs. 35lacs / year
- Franchise had to bear the promotional expenses partly

Mehsana

- Few franchisee shops are there in Mehsana and they all are established nearby national highway Eight & Radhanpur Cross Road
- No franchise shop is establish nearby main apparels market which is situated near Railway station
- Customer is not ready to purchase costly product above Rs. 2000-3000
- Local Traders are more preferred by people because they provide the good quality product in reasonable price
- All big franchise & Local traders who have more than two shops they all are connected with MIS system for the
- Advertisement Place:
 - Modhera Cross roads
 - Randhanpur Cross road
 - Opp. Mahatma Gandhi Complex, Rajmahal Road

Himmatnagar

- Only 3 franchise Liver pool, Green fibre and TQS are there in Himmatnagar
- Big company is providing the apparels according to the demographics of this city
- For ladies wear, Radhika Palace is very famous among customer
- Local people less prefer branded apparels

Palanpur

- Only 4 franchise of Club fox, Blue buddha, John player, D'cot are there in Palanpur
- Local people less preferred branded apparels
- Franchisee has to give all the money which is collected through sales during a month & after that company will issue cheque to the franchise as incentive / commission

Gandhinagar

- In Gandhinagar only 5 brands has their franchisees viz Liverpool, Reebok, John player, Fastrack, and Adidas
- In Gandhinagar the market for apparels is divided into two segments i.e. traditional market which is concentrated at sector 21 and modern franchisee outlets which are concentrated at Info city.
- In both the markets good number of footfalls can be

seen.

- Franchisees at Info city are also getting location advantages.
- There is no franchisee for women apparel in Gandhinagar.

Kalol

- In Kalol there are six franchisees of different apparel brands
- It includes B&Q, Bold and beautiful, TQS, Blue Buddha, Adidas, Barcelona.
- Here every franchisee receives minimum guarantee amount from the side of franchisor.
- In Kalol there are traditional shops of women apparels but there is no franchisee of ethnic women wear

Kadi

- In Kadi there are only three franchisee stores viz B&Q, Gotti, and Bold & beautiful.
- Here also the franchisee receives minimum guarantee amount from the franchisor.
- The franchisee business has not yet evolved in this area.

Conclusion

Based on research it was found that two types of factors affecting the franchise business of apparel brand. In the first category there are essential factors for the smooth functioning of franchise store and the second category consist of competitive factors which differentiate the brand from others in the market.

Essential components of a Franchise:

- Every franchise outlet which has been visited was receiving Training Support, Promotion Support & Layout Support from the franchisor
- Almost all the franchisor is taking franchisee fee from the franchisee for giving the franchise rights
- Company is giving the same amount of goods to the franchisee on deposit of franchisee fee
- All the franchisee are connected with Management Information System (MIS) to central server with franchisor where company can have all the track about franchise business & update regarding stocks
- Media promotion & sales promotion support is taken care by franchisor

- Newspaper, Leaflet, Video/Audio ads, Street walk, Exhibition are different ways for promoting the franchise to attract the customers towards the franchise store
- The Layout of the store is prepared by franchisor. Franchisor is sending the architect to that franchise for making layout of the store
- The price of the products is decided by the franchisor
- Discount pattern is same for all the franchise of the franchisor
- If franchise received the damaged goods than it can return that immediately, it can also return the goods which are not sold
- Franchise can't give any discount without the approval of franchisor

Competitive factors of different franchisor

- Brands like B&Q, Blue Buddha, GOTTI, Barcelona are giving minimum guarantee amount to franchisee and the amount is in the range of Rs. 50,000 to Rs. 60,000 per month
- These brands offer very much flexibility in terms of payment also like amount of goods which you sale is paid to the franchisor daily. In some cases its weekly & monthly
- These brands provide the latest range of goods to all the franchisee irrespective of the performance
- Brands like Bold & Beautiful, B&Q & GOTTI they bear the whole promotional expenses to promote their franchisee in every territory
- In Tier II & Tier III cities, franchisor will only have one franchise of their brand to cater the territory
- Brands like Bold & Beautiful, TQS, Blue Buddha, Belmonte, Raymond, Vimal regularly hold exhibition & seminar for brand promotion at Ahmedabad

References

- The Textile Association, Tex View, Bimonthly journal of Textile association (India), Issue no- 42, November, 2012-January, 2013*
- Indian franchise association, Indian franchise- an outlook, 2013*
- Mala Venkat, India- overview of franchise industry (FRA), United States of America, Department of commerce, July, 2011*
- Ace global private ltd, the textile Apparel and clothing industry in India, Market research, 2009*