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Case Study

Covid-19 and Jigsaws of Fabindia - The Glocal Retailer of Indian Ethnic Products- A Case Study

Swapan Kumar Majumdar

Department of Operations Management and Information Systems and Digital Entrepreneurship, Presidency University School of Management, Bengaluru- 560 0064, India.

**Correspondence E-mail:greenwoodsk@gmail.com*

Abstract

The sales of Fabindia, the 60 years old retailer with 327 retail stores across Indian metropolis, 14 overseas stores in prime locations and over 60,000 rural producers, is severely impacted by the ongoing pandemic. Its overseas business has shrunk by 35% and domestic sales down by 25%. Fabindia wants to know - how to solve its current cash flow problem and what actions it should take to sustain its growth.

Keywords: *Fabindia; Retailer; Indian Metropolis; Domestic Sales; Pandemic*

Introduction

On March 25, 2020, India went into lockdown, which served as an alert to FabIndia and its 250 retail outlets. India's largest private platform for conventional goods shut down its stores and took two weeks to recover.

The iconic ethnic wear company, which has been around for more than 60 years, had not put all its eggs in one basket. It was quick to find that the government was enabling the selling of essential goods and hygiene products during the lockdown, and it wanted to increase its production of organic foods.

Fabindia, 60 years old clothing retailer popular for selling Indian ethnic products to glocal urban middle-class, whose business has been severely impacted by the ongoing pandemic (Covid-19). In FY 2021, Fabindia's domestic sales fell by 25%, while its overseas operation Fabindia Overseas Private Limited's (FOPL) revenue shrank by 35%, but revenue of its subsidiary, Organic India Private Limited (Organic India) grew by 20% and partially compensated the loss of revenue in apparels (Fabindia. (n.d.).

Fabindia was founded in 1960 by John Bissell to export upholstery fabrics, durries, and rugs to the US and other western countries. William Bissell, the present Chairman of Fabindia and the son of John Bissell and, has an entrepreneurial mindset. He has built India's largest private retail platform for traditional products.

The company sells ethnic garments, home products, personal care products, organic foods, and jewellery under the Fabindia brand.

FOPL commenced domestic sales in 1976,when its overseas operation opened its first outlet in New Delhi. The company's high-growth phase began after 2004, following which it increased the number of domestic stores to 327 as compared to 14 of its overseas stores as on March 31, 2020 (Crisil, 2020).

In FY 2017, FOPL divested its majority stake in its UK based subsidiary, East Lifestyle and increased its stake in Organic India, a Lucknow-based organic herbal and health products firm to 53.45% in June 2016 from 40% earlier.

For fiscal 2020, Fabindia Group reported operating income of Rs 1,565 crore and EBITDA margin of 12% against Rs 1,457 crore and 19% respectively in the previous fiscal. Further, EBIDTA margin was also impacteddue to costs incurred while shifting operations of Organic India to the new manufacturing plant.

Fabindia group has a strong brand positioning in the ethnic/handicraft retail segment with a product portfolio comprising of apparel, home products ranging from home-office furniture to cookware and tableware health care products including organic food and wellness products (Mansur, 2020).

Fabindia group has a unique supply chain of over 60,000 craft-based rural producers spread across India and sells them through its stores across India and abroad.

EBIDTA margin for FY 2020 has declined and is expected to be lower for FY 2021 as well.

Net debt which stood at Rs. 241 crores as on March 31st, 2020, increased by Rs. 72 crores towards the end of the FY 2020 on account of disruption in operations.

Fabindia group operates in the highly competitive consumer retail market deriving almost 60% of its revenue from the apparel segment, with many established players compete for consumer spends. The consumer retail segment has impacted by relatively lower discretionary spending and impact of lockdown on consumer's income levels. Like with all retailers 8% of Fabindia's present revenue is from online sales.

Fabindia witnessed a complete lockdown for only 10 days. After which it was able to get requisite permissions to sell organic food items, health supplements, hand sanitisers and soaps online. Currently 233 of 307 stores are open.

Decline in revenue together with operating margin is below 12% is a cause of concern.

Discussion

As the second wave of Covid is showing its ugly teeth across the globe, William Bissell is getting worried about the unknowns. He called for expert committee review meeting next week. Vinay Singh, Director and CEO of Fabindia, realized that the chairman is looking for his views and recommendations.

Many unanswered questions have been hounding Mr. Singh since the outbreak of Covid-19. When the pandemic is likely to be over? How will the post-pandemic world look like? How is Covid-19 changing the buying behaviuor of the glocal consumers? How would the pandemic change the structure and style of global retail industry? What would be the impact of the pandemic on Indian retail industry? What should the Fabindia do to increase the cash flow? What actions would enable Fabindia to sustain its long-term growth? What Fabindia do to protect its rural supply base and the strategic retail outlets? What tough decisions must be made now to save Fabindia from immediate ruins (Mansur, 2020)?

Conclusion

For companies of all sizes, survival is the only way out of the COVID-19 crisis. Entrepreneurs and company owners are being pushed to think beyond the box because of the pandemic's risks and opportunities. Fabindia's physical stores around the country have reopened for business. Bissell drew some key lessons from the tough months of lockout, focusing on keeping the brand's retail environment as safe and hygienic as possible and getting the company back on track. It is necessary to find out the action that is to be taken by Fabindia that would outdo the 'known unknowns' as well as 'unknown unknows' of Covid-19.

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Conflicts of Interest:

The author declares that the research review was conducted in the absence of any commercial or economic associations that could be construed as a potential conflict of interest.

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