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9B18M143

SWAGAT TEXTILES: CARRYING THE FAMILY LEGACY FORWARD

Meenakshi Nagarajan wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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On January 1, 2018, Sanket Modh sat pondering the affairs of his family business, Swagat Textiles (Swagat). As he neared the completion of his master of business administration degree from a premier business school in India, Modh had been entrusted with the job of planning the company’s future course of action. Although Swagat had done well for a long time, it had struggled in 2017; the year had brought an influx of new and aggressive competitors, a decline in growth, a marked change in consumer preferences, and the imminent division of the family business.

Innovations had become necessary, as the market for Swagat’s mainstay products such as *salwar kameez dupattas* (SKDs) and sarees[[1]](#footnote-1) (traditional Indian wear) was rapidly shrinking. Customers in the new generation were instead adopting casual Western clothes for daily wear. The competition for traditional wear was also heating up, as branded players flooded the market with ready-to-wear clothes retailing through multi-branded and single-branded retail stores and online marketplaces. Swagat Textiles operated solely as a wholesale business, and as a traditional family business it had very little focus on branding. It was struggling against the power of the new branded players.

Modh was also worried about the fragmentation of an already shrinking turnover that could result as the next generation entered the family business. He knew that he could work for a multinational corporation for some time before moving back to his family business, and he was actively searching for ideas to start a new venture so that he did not have to vie for a smaller share of the Swagat business. Modh had several ideas in mind, but nothing was concrete.

At the same time, Swagat was thinking of expanding into digital printing. This could give the company a much needed competitive edge. However, the technology was untested in the Indian market and required a high capital investment. Modh had to evaluate the profitability of the proposal. Swagat was at a juncture: growth would be hard to come by unless drastic measures were taken, and Modh was expected to come up with a plan to take the business through its next phase of growth.

ABOUT SWAGAT TEXTILES

Mahendra Modh, Modh’s grandfather, moved from Sidhpur to Surat[[2]](#footnote-2) in 1986 and started the textile business in partnership with his distant cousin Dhayalal Modh under the registered name Swagat Textiles (see Exhibit 1). The two had previously run a castor oil extraction business in Sidhpur; when they sensed a better opportunity in textiles, they shifted to Surat, which became the hub of the business. The next generation of the family started joining the business in 2001. Swagat was made up of three firms: Swagat NX (for SKDs), Swastik (for embroidery), and Shree Swagat Silks (for sarees).

Different partners were responsible for different businesses within the partnership, thus ensuring that revenues were clearly allocated to individuals. When sales were made from one firm to another within the partnership, the buyer was billed based on arm’s-length pricing.[[3]](#footnote-3) Customers were also billed by the different firms under their own registered names. As a partnership family business, Swagat prepared its books of accounts (e.g., balance sheet and profit and loss account) differently from listed companies. The accounts for each business were prepared separately in order to clearly assess the financial standing of each partner (see Exhibits 2 and 3).

When Mahendra Modh first ventured into the manufacturing and trading of sarees, there were many mills in and around Surat engaged in cloth manufacturing, printing, and dyeing. Modh visited these mills and observed their designs. He ordered cloth from the manufacturing mills and sent it for printing and dyeing after selecting designs.[[4]](#footnote-4) The entire process was usually completed in a couple of weeks.

In 1989, the company diversified into SKDs and followed the same process of design selection, manufacturing, and trading for these as well. At this point, Swagat’s only customers were wholesalers. The company selected designs, colour combinations, and cloth based on its customers’ preferences. Orders were placed according to these preferences, and after printing, the sarees and SKDs were sent to the customers, who then sold them to the end consumers.

EVOLUTION OF THE BUSINESS

Until 2001, Swagat had printed designs all over the cloth. After 2001, the business model evolved, and designs were made on a per-piece basis for both sarees and SKDs. The printing for each piece was done separately, and the pieces were then assembled, packed, and sold to retailers.

The fabric used for SKDs and sarees was cotton or synthetic. The mills in Surat, which were known more for synthetic material than cotton, reproduced every material and design in synthetic material. For instance, they replicated pure silk sarees in synthetic material for far lower prices. The feel of the designs and fabric were similar, and even the fall of the cloth was the same when replicated in synthetic material.[[5]](#footnote-5)

Initially, retailers did not perform any value addition on the pieces. Later, with the advent of embroidery and other types of machines, retailers started adding value to the pieces—for example, by adding embroidery, stone work, or other art work. Through this process, retailers were able to earn higher margins and better cater to customer requirements. Keeping this in mind, after 2005, Swagat Textiles invested in an embroidery unit to perform value additions before selling to its customers. The embroidery unit had a capacity of five machines (see Exhibit 4). Embroidery was done either by in-house embroiderers or by workers who stitched and pasted ready-made embroidery patches onto the dresses.

Prior to 2001, the company had purchased cloth from other manufacturers who had loom machines.[[6]](#footnote-6) In 2001, the company bought loom machines and started manufacturing its own cloth.[[7]](#footnote-7) This triggered backward integration in the firm. The company had 76 loom machines in all, producing different qualities of cloth.

BUILDING THE SWAGAT BRAND

Swagat did not initially engage in any brand-building process. The family felt that the company’s reputation would be built by providing high-quality products that met customer requirements. Swagat’s products were priced higher than those of competitors, as they were of better quality.

From 2005 onward, Swagat registered a rapid increase in sales. Swagat began operating across India. Its main markets were the Mumbai[[8]](#footnote-8) region, the Delhi region, and South India (Chennai, Hyderabad, and Bangalore). The company also had a presence in Kolkata (East India), although its market share in East India was low. When the SKDs reached Mumbai (in the western region), they were further sold to other cities in Western India including Nagpur, Nasik, and Pune. Similarly, when the SKDs were sold to wholesalers in Hyderabad, the wholesalers sold these further to retailers in other southern cities, including Vizag and Bhubaneshwar.

In 2011, Swagat branded its SKDs, introducing two brands: Raaga and Violet. Raaga-brand SKDs were printed, sold for a wholesale price of less than ₹2,000,[[9]](#footnote-9) had few or no value additions, and were made of cotton and synthetic material. The Violet brand was a premium brand of party wear and bridal wear that sold for a wholesale price of up to ₹5,000. The Violet brand used only synthetic fabric (mostly polyester).

Swagat used branding only for the SKD division of the business because SKDs registered the greatest amount of sales for Swagat. As Swagat had limited resources, it invested in branding for the division that had the highest growth prospects for the firm. However, Swagat did not carry out any advertising to create consumer awareness for the SKD brands, which were mostly used as identification labels by wholesalers and retailers.

Wholesalers sold the products to retailers, adding profit margins. If the end consumer liked the designs and the brands, the retailer ordered more from the wholesaler, and this made the wholesalers ask for the fast-selling designs from Swagat. To understand consumer preferences, male members of the family tracked the latest fashions in TV soap operas, films, and other entertainment. Market trends were dictated by celebrities; consumers generally asked retailers for specific designs worn by certain actresses in serials and films. This worked well for the firm. Swagat constantly tracked consumer preferences, which were the real trigger for demand by wholesalers.

CATALOGUES

The partners realized that, besides the labels, Swagat needed to design catalogues in order to establish its brand. These catalogues contained pictures of finished fabrics and designs (see Exhibit 5). They also included minute descriptions of the materials and fabrics used. The company hired professional models, who were photographed in the best design studios in Mumbai, and prepared good-quality catalogues, which resulted in higher sales.

Catalogues were given to the wholesalers, who supplied them to the retailers in their respective territories. Retailers showed these catalogues to customers, who saw the end designs and selected what they liked best. The quantity of catalogues given to wholesalers and retailers was determined by the number of sets purchased by the wholesalers and the volume of purchases made by the retailers.[[10]](#footnote-10)

It was easier to communicate directly with retailers after the catalogues were ready. The catalogues were digitized and mailed as portable document format files to retailers who placed orders. This allowed Swagat to obtain demand data on a real-time basis from the retailers. Swagat no longer relied only on wholesaler push to achieve sales, as the digitized catalogues helped it increase orders from retailers. Retailers could place their requests directly with Swagat or ask wholesalers to get the designs.

Over time, Swagat also started using the WhatsApp messenger application (app) to send catalogues and even to obtain orders. WhatsApp enabled an immediate exchange of all designs, colours, and patterns for retailers, thus reducing the lead time for order fulfillment. This also made it easier for customers to place orders by looking at all varieties in a digitized format.

Swagat’s first catalogue was a huge success, unlike the catalogues of many industry competitors, which did well only after initial failures. The main reason for this success was the quality of the catalogue and the photo shoot. Catalogues had to be distinct so that they stood out when a customer walked into a retail store. Swagat was mindful of the fact that every competitor would eventually use catalogues to sell in the market and it differentiated its catalogue so that it could catch the eye of customers; Swagat’s catalogues were bigger and of better quality than those of its competitors.

Customers were given incentives (cash discounts) for early payment. Clients received a discount of 2 per cent if they paid within 30 days; otherwise, they could pay in 90 days without a discount, which was the industry standard followed in Surat. The same credit policy applied for all customers—new or old. However, Swagat was lenient towards existing customers. If critical customers paid after 90 days, Swagat accepted the delay, though this was rare because customers were equally mindful of maintaining good relationships with Swagat.

**BROKERS**

All of Swagat’s transactions—whether they were with vendors or with customers—were done with the help of brokers. The broker took a 2-per-cent commission on each transaction. This was an age-old, unquestioned tradition in the textile industry in Surat. According to Modh,

A broker reduced the chance of payment default or quality issues. If such a situation arose, I did not have to ask my manufacturer or customer—I asked my broker. He sorted out the matter. In that way, my relationship with the vendor or customer did not sour and I also did not have to worry about follow-ups. All my work got done at 2 per cent revenue as the commission, which was not much.

The broker was an important person in the business. Swagat had 20 brokers for the entire business. Brokers specialized in their tasks: some brokers dealt only with dyed material, some dealt with the white cloth that was purchased from looms, and some brokers dealt only in sarees or SKDs. Brokers were critical for the business, as the broker network directly determined the number and quality of clients.

Because all transactions in the textile market were done on a credit basis, brokers performed background checks to determine the creditworthiness of potential customers. Brokers also travelled to various countries and kept track of new designs and material. When they liked new designs or materials, they often brought them back to Surat and asked Swagat to replicate the same in synthetic. Payments were made to the broker directly by various parties involved in the relationship. For instance, if an order was given by Swagat to an embroidery unit, Swagat paid 2 per cent to the broker, and 98 per cent to the embroidery unit for services rendered.

PRODUCT PORTFOLIO expansion

In 2013, Swagat ventured into *lehengas*,[[11]](#footnote-11) using the brand name Rang Rasia. The launch of the Rang Rasia line coincided with the lehenga trend in India, which was influenced by the Bollywood film industry.[[12]](#footnote-12) To make its catalogue more attractive, Swagat captured images similar to Bollywood sets in the catalogue. Sales of lehengas picked up as soon as these were launched.

All of Swagat’s products, including SKDs, sarees, and lehengas, were doing well in the market. However, by the end of 2014, the company found that sales had started to stagnate in both the SKD and the lehenga businesses.

**COMPETITION**

In 2014, several online companies had started selling ready-to-wear *kurtas* and leggings.[[13]](#footnote-13) Brands such as Jaypore, Craftsvilla, and IndianRoots were pure online brands, while brands such as Soch and Aurelia had a strong presence both online and offline. Large online marketplaces such as Amazon.com Inc., Jabong.com, Flipkart Pvt Ltd., and Myntra.com[[14]](#footnote-14) offered opportunities to small entrepreneurs to sell ready-to-wear traditional Indian clothes such as kurtas, sarees, and lehengas with a pan-India reach. Many Indian retailers—such as Shoppers Stop Ltd., Pantaloons Fashion & Retail (Pantaloons), and Big Bazaar, which had started out as offline department stores—had moved into the online space as well and had started retailing traditional Indian wear under private label brands. For instance, Shoppers Stop Ltd., retailed under the label Stop, Pantaloons under the label Rangmanch, and Big Bazaar under the name Fashion at Big Bazaar (FBB).

Customers found that there was a lot of choice available in ready-to-wear clothing, which was more convenient than buying unstitched cloth for SKDs from players such as Swagat. Customers could try out ready-to-wear clothes and buy them off the shelf. They did not have to hunt for suitable tailors for stitching or wait for long periods to wear their favourite pieces.

**CHANGING CONSUMER PREFERENCES**

Consumers preferred kurtas and leggings rather than SKDs, among traditional Indian styles, and the dupatta was not liked by the younger generation. Modh commented:

Our family business was run by my grandfather and other elders. They were very clear that we should not sell Indian dresses without dupatta. A dupatta was a very important garment for the Indian woman. We definitely could not diversify into other products such as T-shirts or lingerie as these were not in sync with Indian values and our business philosophy.

However, Swagat realized that apparel trends among women were undergoing drastic changes (see Exhibit 6). Women no longer wore traditional sarees, the full set of SKDs, or lehengas. Many had switched to kurtas and leggings for daily wear, while many others had transitioned to Western wear such as jeans and T-shirts. Traditional wear was confined to special occasions and festivals. Thus, demand for traditional Indian wear was becoming stagnant.

**DIGITAL PRINTING: THE NEXT GROWTH WAVE?**

Swagat wanted to revive the stagnating sales for traditional Indian wear and considered digital printing as the next wave of growth for the business. Modh said,

We wanted to move into digital printing. However, the capital cost was high. Machines were expensive, and we could not anticipate the demand for digital print in the Indian market. We knew that digital prints were doing very well in foreign markets because our brokers had told us about it. We thought that we could revive our market with our foray into digital printing. We wanted to strengthen our core before thinking further, and we wanted to take the lead in the next wave of technology. We knew that traditional Indian wear would never die out.

The digital printing process was expensive and involved several stages (see Exhibit 7). There were several scenarios under which Swagat could enter into digital printing (see Exhibit 8). Swagat would have to import digital printing machines, which were not available in India, from either Italy or China.[[15]](#footnote-15) Both high-speed and low-speed machines were available. The Italian machines were high-speed machines with an ideal production capacity, quoted by the vendor, of 4,000 metres per day and an optimum production capacity of around 3,200 metres per day. The Chinese machines were low-speed machines with an ideal capacity of 1,000 metres per day and an optimum capacity of around 800 metres per day. The optimum capacities were lower, as they considered the set-up time—the time it took to change the cloth roll, put in dyes, set up the design machine, and so on—and this reduced the maximum capacity.

Although Modh knew that “digital prints were the rage outside India,” he was “unsure about the demand for digital prints in India initially.” However, he stated that “we know that it will rise exponentially in the next few years once the market sees the quality of digitally printed cloth. We want to pioneer the trend so that we can ride the wave.”

The machine might not initially operate at full capacity due to low demand, but Swagat expected this problem to be resolved after a few months, when it expected demand to grow. Until then, however, digital prints were expected to cost more than traditional prints. Swagat also needed to invest in catalogues for digital printing.

Swagat was planning to buy several digital machines in the long run, depending on sales forecasts. The machines could print on either cotton or polyester cloth, and Swagat decided to print on both. Different types of ink were needed for printing on the different kinds of cloth.[[16]](#footnote-16) Once the ink had spread through the nozzle of the digital printer, the nozzle had to be changed each time the ink type was changed. Since the nozzles were expensive (₹150,000 each), it made sense to use each machine for a specific type of cloth.

The firm was planning to use more machines for printing on polyester cloth and fewer for printing on cotton as the demand for synthetic fabric (polyester) was higher. Digital printing was more expensive than traditional printing, and cotton fabric was more expensive than synthetic fabric. This meant that the cost would escalate if digital printing were done on cotton fabric. Since the demand for expensive cotton products was not high, and cotton was less durable than synthetic cloth, Swagat anticipated that digital prints on polyester were likely to have higher demand than digital prints on cotton.

Digital printing had several benefits for Swagat’s customers (see Exhibit 9). Digital prints would work well for several types of customers: those who understood that their strength was variety, not quantity; customers with smaller order sizes, who had not been buying from Swagat because of the requirement to place large orders for traditional printing; and customers who wanted prints for smaller lengths of cloth, for designing non-traditional products. Swagat also planned to take up job orders (orders for outside firms).

Digital printing could be done on any fabric, not necessarily for traditional Indian products such as SKDs or sarees. Therefore, this foray into digital printing could open up many more customers for Swagat, which could lessen the drop in revenues for the family business. Taking up many orders would also mean that the company’s fixed cost per metre would decrease. The company had to decide whether to buy Chinese or Italian machines. The capital expenditure was much higher for an Italian machine, but Swagat could charge a much higher price for the high-quality digital prints it would produce from an Italian machine (see Exhibit 10).

To make digital printing popular, Swagat planned to participate in annual exhibitions in Surat, where machine manufacturers regularly showcased their designs to prospective customers such as Swagat. Such exhibitions made customers aware of new technologies such as digital printing. These exhibitions were also attended by wholesalers and large retailers.

DESIGNERS

Swagat’s differentiation came from the designing process. Swagat had three designers in 2015; this increased to six in 2016 and to nine by the end of 2017. Modh explained:

More designers had to be hired as the existing designers were not able to produce new designs at a faster rate as machine capacity increased. Customers also started complaining and said that they had no reason to come to us if we did not offer new designs. As we planned expansion into digital printing, increasing the number of designers became even more important. The firm would eventually employ up to 15 designers.

Three of the oldest designers at Swagat had worked with Photoshop for more than 10 years.[[17]](#footnote-17) They knew what customers wanted and strove to deliver this to them.

All Swagat products were designed in house. Designers created new designs on their own, and based designs on samples or ideas sent by brokers and family members. The designers edited designs according to Swagat’s requirements. The company also purchased designs from Mumbai, Kolkata, and Delhi, so that these could be used in the production process. Vendors also had a catalogue of designs, which could be directly uploaded and edited in Photoshop.

Customers (wholesalers) who sought quality designs preferred to go to renowned brands such as Swagat even if doing so came at a premium price. Swagat gave its customers a high level of customization due to the strength of its design team.

THE FAMILY BUSINESS

There was a tradition in all family businesses in Rajasthan and Gujarat, wherein at least one family member had to be part of each division. Managers were not allowed to run businesses independently. Modh did not know what part of the business he would handle. However, he was worried about the business becoming more fragmented, as the number of family members in the business kept increasing with each passing generation.

Modh was thinking about how the family had started the textile business from scratch after abandoning the castor oil extraction business. Perhaps he could diversify into an information technology (IT) business. However, he knew that his father had expectations that he would continue the business after him since he was the only son. Modh said, “I know that I will eventually join my family business. I am actively thinking on the lines of starting my own business. But I am not sure how my father will react to this. Maybe I can start branded retail—a sort of forward integration in the same product lines.”

**THE WAY AHEAD**

Modh had to immediately arrive at a decision about which machines to buy for Swagat Textiles’ foray into digital printing. He had to calculate profits for the Italian and Chinese machines, given the sales forecast, and make suitable recommendations to the elders in his family. Modh also had to make recommendations about how to tackle increasing competition in the traditional clothing market, especially as market growth had been declining over the last few years.

Modh was also concerned about his own future in the family business. He wanted a larger piece of the business pie, and he was not sure whether the family would allow him to start a new venture, especially if it were unrelated to the family business of textiles. Related ventures such as branded retail might be more acceptable, but this would likely involve a high investment. Modh was not sure if the family would let him diversify, especially as no other members had previously engaged in a branded retail business. Yet he also knew that a new business could give him the independence he needed to implement the ideas he had developed in business school. Modh had to come up with a plan to resolve all these problems for the next meeting, where all family members were to plan the way ahead for the family business.

Exhibit 1: Swagat Textiles Family Tree, indicating primary responsibilities

Note: SKD = salwar kameez dupattas, traditional Indian wear

Source: Company files.

Exhibit 2: PROFIT & LOSS ACCOUNTS FOR SWAGAT TEXTILES, 2014–15 TO 2016–17 (in ₹)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Debit** | | |  | **Credit** | | |
| **Description** | **2014–15** | **2015–16** | **2016–17** | **Description** | **2014–15** | **2015–16** | **2016–17** |
| Sales | 7,086,139.00 | 10,405,050.00 | 17,009,264.00 | Sales | 85,378,377.00 | 120,078,164.00 | 200,985,452.00 |
| Purchase | 82,466,978.00 | 84,780,816.00 | 151,410,454.00 | Purchase | 418,196.00 | 2,365,502.00 | 4,617,350.00 |
| Sales Return | 10,437,689.00 | 11,187,153.00 | 9,767,125.00 | Closing Stock | 63,801,190.00 | 71,800,000.00 | 74,412,797.00 |
| Opening Stock | 32,498,969.00 | 63,801,190.00 | 71,800,000.00 | Control Stock | 24,095.00 |  |  |
| Trading Expenses | 9,616,431.00 | 10,171,219.00 | 13,136,666.00 | P&L Income | 485,965.00 | 5,240.00 | 3,788.00 |
| Trading Income |  | 27.00 |  | P&L Income (Interest from Bank) |  | 574,256.00 | 285,885.00 |
| P&L Expenses\* | 9,670,342.99 | 14,278,309.86 | 17,088,535.04 | Trading Income | 1,403,842.00 | 110,253.00 |  |
| Partner Remuneration | 302,182.00 | 689,090.00 | 1,306,504.00 | Return Purchase Account | 550,420.00 | 613,248.00 | 1,879,547.00 |
| Total | 152,078,730.99 | 195,312,854.86 | 281,518,548.04 |  | 152,062,085.00 | 195,546,663.00 | 282,184,819.00 |
| **Profit/Loss for the Period** |  |  |  |  | **−16,645.99** | **233,808.14** | **666,270.96** |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.0157 as of January 1, 2018. P&L = profit & loss; \*P&L expenses included rent, transportation, advertising, audit fee, depreciation, insurance, stamp charges, stationery and printing, and other similar expenses.

Source: Company files.

Exhibit 3: BALANCE SHEET FOR SWAGAT TEXTILES, 2014–15 TO 2016–17 (in ₹)

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** | **2015** | **2016** | **2017** |
| Fixed Assets | 856,329.00 | 901,026.00 | 2,168,731.00 |
| Bank Balance | 362,768.93 | 361,237.80 | 8,725.80 |
|  | 14,154.97 |  |  |
| Cash in Hand | 697,799.00 | 558,472.00 | 369,820.00 |
| Debtors for Jobs | 61,578.00 |  |  |
| Inventories | 63,801,190.00 | 71,800,000.00 | 74,412,797.00 |
| Loans and Advances | 2,566,726.00 | 959,772.00 | 1,032,059.00 |
| Creditors for Expenses | 158,744.00 |  | 3,500.00 |
| Creditors for Process |  |  | 28,043.00 |
| Creditors for Raw Materials | 9,150.00 |  |  |
| Debtors for Goods | 21,001,282.00 | 30,256,579.00 | 48,025,079.00 |
| Creditors for Goods |  |  | 30,135.00 |
| Loan Advances to Staff | 502,780.00 | 604,512.00 | 865,466.00 |
|  |  | 11,019.00 | 50,096.00 |
| Loan from Sister Concern | 4,606,009.00 | 2,794,913.00 | 1,377,680.00 |
| Loans to Others |  |  | 903,000.00 |
| Unsecured Loans from Others |  | 72,403.00 | 75,152.00 |
|  |  | 67,100.00 |  |
|  | 94,638,510.90 | 108,387,033.80 | 129,350,283.80 |
|  |  |  |  |
| **Liabilities** |  |  |  |
| Unsecured Loans from Others | 51,781,799.92 | 59,976,350.92 | 67,845,636.00 |
|  | 743,240.00 | 1,340,456.00 | 1,478,926.00 |
| Bank Balance | 14,228,408.23 | 14,078,814.99 | 5,415,816.60 |
| Loans and Advances | 184,719.00 | 69,504.00 | 148,500.00 |
| Loan from Sister Concern |  | 965,735.00 | 5,861,718.00 |
| Creditors for Brokerage | 5,000.00 |  | 657,158.00 |
| Creditors for Expenses | 3,418,573.00 | 4,617,279.00 | 10,072,120.00 |
| Creditors for Finish | 84,280.00 | 854,810.00 | 58,903.00 |
| Creditors for Others | 671,227.00 | 120,000.00 | 540,000.00 |
| Provision for Expenses |  |  | 34,000.00 |
| Capital Account (Partner) | 9,861,432.75 | 8,201,106.89 | 8,360,161.20 |
| Advance to Employees | 19,040.00 | 18,940.00 |  |
| Debtors for Goods | 195,343.00 | 119,060.00 | 121,465.00 |
| Creditors for Process | 7,791,981.00 | 10,486,245.00 | 18,168,801.00 |
| Creditors for Raw Materials | 3,209,423.00 | 3,002,952.00 | 5,535,425.00 |
| Creditors for Goods | 2,444,044.00 | 4,535,780.00 | 5,051,654.00 |
|  | 94,638,510.90 | 108,387,033.80 | 129,350,283.80 |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.0157as of January 1, 2018.

Source: Company files.

Exhibit 4: Details about embroidery machines

There were two types of embroidery machines: multijet and sequential. In a multijet machine, different colour threads were used. Up to six different colours could be used at one time. A sequential machine was more sophisticated, and the sequence of the embroidery could be fed into the machine. All machines were run by computers. Initially, floppy disks were used to feed in designs for making embroidery. The floppy disc with the design was inserted into the embroidery machine system, and it started printing embroidery on the cloth. Gradually, machines were updated, and thumb drives were used instead of floppy disks. Embroidering machines became more sophisticated, and issues related to breakage of threads during embroidery reduced considerably. The operation speed and thus the production capacity per day also increased drastically. The issues of machine disturbance and defective embroidery reduced drastically.

Source: Created by the case author based on company files.

Exhibit 5: The Catalogue

Photo shoots for catalogues were done by professionals. Most of the photo studios had their head offices in Mumbai due to the availability of better technology. However, the photo studios also established offices in Surat, where they could get the pulse of the market.

Swagat conducted most of its photo shoots in luxury malls in Mumbai, recreating the interiors of exotic locations in studios. Photo studios gave a list of suitable models to the prospective clients, and the clients selected the most appropriate models based on their appearance, height, and so on. Models were asked to wear various outfits to be featured in the catalogue, and several pictures were taken to get satisfactory results. It took more than 10 hours to shoot one catalogue.

Preparing the catalogue involved intricate work. A representative from Swagat had to ensure that the costumes were presented in the most attractive manner. The quality of paper used in the catalogue had to be good—glossy and thick. It also had to be decided whether the catalogue would be hard bound or soft bound. Swagat generally used hard-bound catalogues because these had a better appearance. If there was high demand for a catalogue and it went into a second production run, Swagat opted for a soft-bound catalogue for the second production run, as the cost was lower.

Swagat had to pay a number of costs involved in preparing the catalogue, including the costs for the photo studio, the photographer, the model, the make-up artist, the hair dresser, and so on. The cost of the catalogue could vary from ₹300,000 to ₹1,000,000. This included all copies of the catalogues printed for a single production run. The company could obtain additional copies of the catalogue by paying the printing cost. Catalogue billing was done in two parts: the first part included all the costs of the photo shoot, and the second included the printing costs.

Note: ₹ = INR = Indian rupee; ₹1 = US$0.0157as of January 1, 2018

Source: Created by the case author based on company files.

Exhibit 6: Womenswear market in India

Womenswear contributed 38 per cent of the total apparel market in India, and the compound annual growth rate (CAGR) for the womenswear market was more than 10 per cent. The country’s womenswear market was worth ₹1,040 billion and was dominated by unorganized players, which made up nearly 80 per cent of the market. A significant number of these unorganized players catered to the women’s ethnic wear market.

The womenswear market included ethnic wear; Western wear; Indo-Western wear or fusion wear, which mixed traditional and Western designs; and innerwear. The Western wear market included casual and formal Western clothes. The Western casual wear market (which posed the primary threat to Swagat’s mainstay products) was growing at a CAGR of nearly 20 per cent. Jeans and T-shirts were the fastest-growing categories within the womenswear market. On the other hand, the CAGR for the ethnic market was less than 8.5 per cent and was declining.

Among the younger generation of women in India, pure ethnic wear was finding less acceptance. These women instead preferred Western casual wear or Indo-Western wear for daily use. A typical example was wearing a short kurta (like a top) over a pair of jeans. They purchased pure ethnic wear mainly for festivals and important family functions. The market for Indian ethnic wear was also witnessing a shift from unbranded clothes (the unorganized market) to branded wear (the organized market). The increase in the number of working women was also increasing the preference for formal Western wear.

Note: ₹ = INR = Indian rupee; ₹1 = US$0.0157 as of January 1, 2018

Source: Created by the case author based on content from Images Business of Fashion, “An Overview of Women’s Wear Market in India,” Images Business of Fashion, February 9, 2018, accessed March 12, 2018, www.indiaretailing.com/2018/02/09/fashion/womens-wear-market-india/; Amit Gugnani and Pakhie Saxena, “Growth of the Indian Ethnic Wear Market,” accessed March 12, 2018, www.technopak.com/Files/indian-ethnic-wear-market.pdf.

Exhibit 7: The Digital printing process

The digital cloth printer worked like a normal paper printer. The design was the input. The cloth roll was applied on the belt from one end, the operator selected colour combinations and then entered the print command, and the machine printed like it was printing on paper. The white cloth, however, had to undergo pre-processing to prepare it for digital printing.

After the printing process was completed, the cloth went to the dryer, where a heating process was used to dry it. The next day, the cloth was put through a looper machine for eight minutes under a temperature and pressure specified by the dyeing master. This process added depth, intensity, and contrast to the colours in the digital print. Varying the temperature and pressure changed the look and feel of the cloth, so this process was extremely important to produce the necessary effects of the digital printing process. The cloth was then washed: multiple runs of the cloth were completed in the washer to remove excess dye and give a finishing touch. The finished cloth was the put in the stenter machine, where it was ironed. After this, it was ready for delivery to the customer.

Source: Created by the case author.

Exhibit 8: Scenarios for expansion into Digital printing

|  |  |  |  |
| --- | --- | --- | --- |
|  | Scenario A (Italian machine) | Scenario B (Chinese machine) | Scenario C  (Combination of the two) |
| Ink used for digital printing (imported) |  |  |  |
| Ink used for digital printing (domestic) |  |  |  |

Source: Created by the case author.

Exhibit 9: Digital printing versus Conventional printing

The conventional method involved printing on screens. This was a manual job; 18 screens could be printed in one belt, and there was a limit to the number of colours that could be used. The mills printed only on receiving a minimum order, as smaller lots were not cost effective for them. In digital printing, smaller orders—even for a few hundred metres of cloth—could also be fulfilled. Although there was an additional set-up cost for each print run, the cost increase was negligible compared to the set-up cost for conventional printing.

Digitally printed designs looked better than designs printed using the conventional process. Digital printing also allowed the designer to alter the size of the design by enlarging it or making it smaller. Therefore, an entire length of cloth could be made without repeating the design, or the same design could be repeated a number of times, depending on the size of the design. Conventional printing had a fixed screen size and could do only certain design repetitions.

Conventional printing did not give uniform colour throughout the cloth. Digital machines allowed for the intensity of the colour to be changed whenever needed. Therefore, a colour such as indigo could be made brighter or duller depending on the input fed into the machine by the computer. Such changes could not be made in the conventional machine, which was set at a certain level and could not be altered during a print run.

Source: Created by the case author.

Exhibit 10: Time line for Investment and expected returns (in ₹)

|  |  |  |
| --- | --- | --- |
| **Expense** | **Italian Machine**  **(per machine)** | **Chinese Machine**  **(per machine)** |
| Capital Expenditure1 | 27,500,000 | 3,250,000 |
| Amortization Period2 (in years) | 15 | 5 |
| Maintenance and Repair Cost3 | 2,500,000 | 1,100,000 |
| Fixed Labour Cost4 | 750,000 | 750,000 |
| Rent (per year) | 2,700,000 | 2,700,000 |
| *Variable Cost (per metre)* |  |  |
| High-Quality Coating Chemical | 6.5 | 6.5 |
| High-Quality Dye Cost | 18.5 | 18.5 |
| Finishing Chemical | 1.5 | 1.5 |
| Direct Material Cost | 26.5 | 26.5 |
| Electricity | 1.2 | 1.2 |
| Gas | 2.5 | 2.5 |
| Bagasse | 0.6 | 0.6 |
| Power Cost | 4.3 | 4.3 |
| Maintenance Variable | 5.0 | 5.0 |
| Sundry Expenses | 3.0 | 3.0 |
| *Sale Price (per metre)* |  |  |
| For the First Year | 78.0 | 55.0 |
| For the Second Year | 70.0 | 50.0 |
| For the Third Year | 65.0 | 45.0 |

Swagat Textiles was planning investments over a period of three years. The forecasted sales of digital prints at the end of the first year was 600,000 metres; at the end of the second year, it was 1,000,000 metres; and over a three-year period, it was 1,500,000 metres. The prices of using the Italian machine for the three years were ₹78, ₹70, and ₹65, respectively. The price for using the Chinese machine for all three years was ₹50. The factory worked for 26 days in a month.

1 Interest was charged at 11.3% per year on 80% of the capital expenditure amount

2 Depreciation was calculated on the entire amount based on the straight line method

3 For the Italian machine, the maintenance and repair cost was ₹500,000 + four nozzle heads at ₹500,000; for the Chinese machine, the maintenance and repair cost was ₹500,000 + four nozzle heads at ₹150,000 each

4 The labour cost was per machine

Note: ₹ = INR = Indian rupee; ₹1 = US$0.0157 as of January 1, 2018

Source: Company files.

1. *Salwar kameez dupatta* (SKD) was a traditional Indian outfit of *salwar* (loose trousers), *kameez* (long top—plain, printed, or with designs), and a *dupatta* (long scarf). This was a typical dress worn by women throughout India. SKDs were sold in an unstitched or stitched format. Unstitched SKDs were stitched by local tailors after taking customized measurements. Stitched SKDs were bought off the shelf and were based on standard measurements. Each SKD had 2.5 metres of cloth for the kameez, 2.0 metres for the salwar, and 2.25 metres for the dupatta. A *saree* was another traditional Indian women’s garment, usually made of 5.5–6.5 metres of fabric, draped in different styles. The saree was worn with a blouse. Sarees of 6.5 metres included 1 metre for the blouse, which matched the saree. [↑](#footnote-ref-1)
2. Sidhpur and Surat were both cities in the Indian state of Gujarat. [↑](#footnote-ref-2)
3. Arms-length transactions involved a buyer and a seller who acted independently and had no relationship with each other. [↑](#footnote-ref-3)
4. Each saree was 5.5–6.0 metres in length, and the printing mills printed sarees of these lengths. Orders were typically placed in multiples of 5.5–6.5 metres for sarees. [↑](#footnote-ref-4)
5. The fall was the stiffness and the appearance of the material when worn. [↑](#footnote-ref-5)
6. A loom machine converted the thread to cloth. [↑](#footnote-ref-6)
7. There were two types of loom machines: basic and waterjet. Waterjet machines were more sophisticated and more expensive; however, quality issues were higher in waterjet machines. Swagat Textiles owned only basic loom machines. The basic machines had a lower cost of production and no quality issues. [↑](#footnote-ref-7)
8. Mumbai was located in West India, and Delhi was in North India. Mumbai, Delhi, Chennai, and Bangalore were metro cities in India. [↑](#footnote-ref-8)
9. ₹ = INR = Indian rupee; ₹1 = US$0.0156 as of January 1, 2018; all currency amounts are in ₹ unless specified otherwise. [↑](#footnote-ref-9)
10. Each set represented all the designs in a particular catalogue. Wholesalers often purchased several sets, depending on the size of their operations. [↑](#footnote-ref-10)
11. A *lehenga* was a long, highly embellished colourful skirt worn during festive and special occasions in various parts of India. It was usually combined with a blouse and a *dupatta* (long scarf). Lehengas were especially popular during weddings and festivals. They were not meant for casual, daily wear. [↑](#footnote-ref-11)
12. The Hindi film industry was called Bollywood. Swagat’s launch of lehengas coincided with the release of the Hindi *Bajirao Mastani*, where the lead heroine wore lehengas. [↑](#footnote-ref-12)
13. A *kurta* was like a *kameez*—a long shirt—with or without value additions such as prints, embroidery, and other craftwork. The kurta was worn with leggings. The difference between an SKD and a kurta pyjama was that a dupatta (long scarf) was not needed with a kurta pyjama. Leggings were skin-fitting stretchable pants worn below kurtas. These were often made of lycra, and replaced *pyjamas* made of cloth. [↑](#footnote-ref-13)
14. These were all online marketplaces. [↑](#footnote-ref-14)
15. The best digital machine brands were Reggiani and Mario Crosta—both Italian brands. [↑](#footnote-ref-15)
16. Disperse ink was required for polyester, while reactive ink was needed for cotton. [↑](#footnote-ref-16)
17. Photoshop was a software package used for designing in the textile industry; Photoshop was also used in digital printing. [↑](#footnote-ref-17)