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Nalli Silk Sarees (A)

On a balmy night in the summer of 2011, Nalli Kuppusamy Chetty, chairman of Nalli Silk Sarees Private Limited (Nalli Group), waited at the Chennai International airport for his granddaughter, Lavanya Nalli (HBS MBA 2011), to arrive on her transcontinental flight. As Kuppusamy waited, he reflected on the next steps he should take to keep the Nalli Group competitive. Established in 1928, the Nalli Group—a family-owned and -operated business that retailed Indian ethnic wear—had enjoyed impressive growth, with a \$95 million turnover and a 22-store retail footprint, and had outdone its competitors by being the only player in its segment to have a national presence (see **Exhibit 1** for selected information on the Nalli Group).

In 2011, however, Kuppusamy felt that the market and the competitive landscape were changing. Over the years, the business had become more complex to manage because of the growth in the number of stores, the increase in product categories, and the proliferation in the number of Stock-Keeping Units (SKUs) that had to be managed. The company was also starting to face intense competition not only from large Indian and multinational corporations that were aggressively entering the Indian apparel market, but also from small, privately owned stores that were offering heavily discounted products to entice customers. As a reaction to changing market conditions, the Nalli Group earlier that year had announced a \$25 million expansion plan and proposed the opening of 12 new stores over a period of two years.¹ Given such aggressive expansion plans, Kuppusamy also recognized that the Nalli Group might need to revisit its pricing strategy, merchandising process, and product assortments in order to increase its own competitiveness. Kuppusamy was also acutely aware that much of Nalli's past growth had been due to the company's strong culture and zealous emphasis on customer service, and he wondered what impact the expansion plans would have on overall customer experience. With Lavanya Nalli in Chennai for only a few days before she headed back to the U.S. for her new assignment with a top consulting firm, Kuppusamy knew they had only a few days to deliberate on future steps that the company should take.

Silk: Queen of Fiber

Silk was a strong, organic fiber with high natural luster. While many different types of insects could produce silk, the silk that was used to make fine textiles and clothing was obtained from the larvae of the mulberry silkworm. In commercial silk production, handpicked silk moths laid eggs that

Professor V.G. Narayanan and India Research Center Researchers Namrata Arora and Vidhya Muthuram prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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became caterpillars or silkworms. The silkworms were fed fresh mulberry leaves until they grew to a size that was almost 10,000 times their original weight.² Once they reached this size, the silkworms used their silk glands to spin a cocoon around their bodies. Silk harvesters allowed the larger cocoons to become silk moths and sorted those remaining by size, texture, and color. The cocoons were then put through a series of boiling hot and cold immersions to help soften, separate, and spool the silk strands that formed the cocoon. In order to make the silk strong enough to be woven into fabric and textiles, 3 to 10 strands or filaments were spun together to create a silk thread. The silk thread was then woven into silk cloth in factories. It was estimated that approximately 2,000 to 3,000 cocoons produced one pound of silk.³ This, along with the complex cultivation and handling process, made silk one of the most expensive fibers in the world. In 2009–2010, the cost of raw mulberry silk was around \$30 per kilogram, significantly higher than that of natural fibers such as cotton and wool, whose average cost was between \$1 and \$2 per kilogram.⁴

Silk Sarees: Made to Last a Lifetime

In 2009–2010, India was the second-largest consumer and the second-largest producer of silk in the world; only China exceeded it in both categories.⁵ Most of the silk in India was used to make sarees, garments widely worn by women across the Indian subcontinent. A saree was a rectangular piece of unstitched cloth, usually 6 to 9 meters long and 1 meter wide, which was draped around the body in different ways and was worn with a blouse and an inner skirt. While sarees were made of different materials, including cotton and polyester, silk sarees formed an integral part of an Indian woman's attire for special occasions, such as weddings, rituals, and family celebrations. In the Indian wedding culture, a bride's trousseau comprised largely silk sarees, either newly purchased or inherited family heirlooms, adding to the sarees' significance. While the price of sarees varied widely based on the materials and fabrics used, it was common for the bride's family to purchase 11 to 21 sarees for the bride herself, as well as a basket of sarees for all the close female relatives of the family. A family member of a newlywed explained, "Aside from the bride's trousseau, her parents bought close to 40 sarees just for gift-giving purposes and their prices ranged from \$100 to \$200 each."⁶ Though the saree continued to have strong traditional roots, an increasing number of women living in urban India were choosing to wear lighter and more contemporary Western or Indian clothing. Kuppusamy acknowledged, "Unless we have the younger generation wearing it, the saree could lose its pride of place."

India had numerous silk-weaving centers spread across the country, and each center had its own unique designs, patterns, and styles of weaving. One such center was located in the small temple town of Kanchipuram, 70 kilometers from Chennai in the southern state of Tamil Nadu. The tradition of weaving silk sarees in Kanchipuram dated back almost 400 years and involved sarees that were handwoven using silks threads interwoven with *zari*, a silk thread dipped in gold, silver, or copper.⁷ For generations, weavers in Kanchipuram had sourced unadulterated mulberry silk from the neighboring state of Karnataka, almost 300 kilometers away, and sourced their *zari* from the western state of Gujarat, nearly 1,500 kilometers away. Kanchipuram sarees were usually bright in color and had patterns inspired by nature and South Indian temple scenes, making them one of the most popular types of saree for weddings and special occasions. Simple Kanchipuram sarees could take 10 to 12 days to weave, while more intricate patterns could take almost a month.⁸ The price of an authentic Kanchipuram silk saree could range from \$100 to \$2,000, making it one of the most expensive types of saree sold in India. Shortage of labor supply, however, was a major issue plaguing the weaving industry in India. Younger generations of weavers were looking for more stable income and comfortable lifestyles. Kuppusamy explained, "With the lure of jobs in software firms, many weavers are abandoning their traditional vocation."⁹

Nalli Silk Sarees: Quality and Integrity

The Nalli Group was established by Nalli Chinnasamy Chetty, a master weaver from Kanchipuram. In 1928, his desire to extend the family tradition beyond weaving led him to set up a modest 200-square-foot retail store in Chennai to sell Kanchipuram silk sarees. From his early days, Chinnasamy exhibited strict values on quality and customer service. His family members often recollected an occasion when Chinnasamy worked continuously for days to weave a saree in half the time it would normally take in order to meet a customer's deadline. Kuppusamy, Chinnasamy's grandson, commented, "For him, customers mattered most and he was willing to take great pains for them."

The store initially acquired clients through social contacts but quickly gained widespread popularity for the values and business principles established by Chinnasamy. His emphasis on innovation, customer-centric practices, quality, and honesty across the store's retail operations were further passed on by future generations of Nalli's ownership and helped the retailer build its unique national brand.

Throughout its history, the Nalli Group has used innovative practices. In the 1930s, Chinnasamy became the first saree retailer to use high-quality chemical dyes from Switzerland. Kuppusamy added, "In those days, there were limited colors, because only vegetable dyes were used. My grandfather was able to introduce a chemical dye which was accepted by the stringent weaving community since it did not reduce the brightness of the silk or compromise the yarn's strength." The family also extended the use of innovative practices to their retail operations. In the 1980s, Nalli became the first textile retailer in India to use bar codes and computers for billing and back-office administration. However, while it was open to adopting new technology, it also made the decision not to install security scanners in its stores to avoid embarrassment for its customers in the event of a false alarm. Kuppusamy added, "Respecting a customer's honor matters more to us than his money."

Customer-centric practices remained a core value for the Nalli Group. When discussing the retailer's focus on its customers, Kuppusamy was quick to recollect an incident when his father offered a loan of \$150—a substantial amount in the 1940s—to a customer who was financially distressed with wedding expenses. Kuppusamy added, "The loan was repaid and the client not only became a loyal Nalli patron but also helped in increasing our goodwill amongst other customers." It was also around this time that the company expanded its product range. Kuppusamy explained, "Nalli was the only store that remained open in Chennai in the days prior to World War II. Clients from across the city started to visit our store for purchases other than silk sarees, since the other textile stores were closed. We felt it was our responsibility to cater to these customer needs." In addition to its regular stock, Nalli also accepted orders for customized sarees, which took longer to make, but the company felt it was effective in building loyalty to the Nalli brand.

In its operations, the Nalli Group prioritized staff training. Each of its stores conducted a daily training workshop that covered topics such as detailed product orientation, customer interaction tips, and overall staff grooming to enhance the customer experience. Relying on word-of-mouth publicity, the Nalli Group felt that such practices would help not only in increasing brand loyalty but also in increasing its customer base. Kuppusamy explained, "Satisfied customers contribute to our strength. Any day, the word-of-mouth publicity scores over the funded one."

Also evident over the years was the family's commitment to its values. "Nalli—then and now—stands for quality and honesty," stated Kuppusamy. Nalli was the first Indian textile retailer to label

its sarees as “pure silk,” “pure zari,” and “tested zari” to increase awareness among saree shoppers.^a Nalli was also one of the first saree retailers to implement a return policy as a testimony of the quality of its sarees. It also procured its sarees, including the Kanchipuram silks, directly from the weaving community in order to be able to maintain strict quality standards. When several of Nalli’s competitors duped their consumers by using inferior-quality zari, and reports of their unethical business practices surfaced, their sales plummeted and their brand image was in ruins. “We stand by our materials. Our integrity is the cornerstone of our business,” said Kuppusamy. Nalli actually benefited from the scandal surrounding some of its competitors, and its reputation for integrity was enhanced in the eyes of consumers when they noticed that Nalli sarees did not have these issues.¹⁰ Finally, while most saree retailers engaged in heavy bargaining with customers and offered discounted products during their sale period, the Nalli Group adhered to a fixed-price policy across all its stores and never put its products on sale.

In 1951, Nalli moved its store in Chennai from its original location to its landmark location with 30,000 square feet of retail space. Then, in 1985, it opened a second retail store in Madurai, a Tier-2 city also in the southern state of Tamil Nadu. Soon after its expansion in 1985, it opened stores in major metros, including Delhi, Mumbai, and Bangalore (see **Exhibit 2** on Nalli’s retail presence). The company also added new product lines to include a wider variety of ethnic wear, fabrics, and home furnishings, making it a one-stop shop for women, men, and children (see **Exhibit 1**). Even though the Nalli Group was credited with being the first ethnic wear retailer with a pan-India presence, the company had been criticized for being cautious in its expansion. Kuppusamy admitted, “We could have been a billion-dollar brand. . . . But at the end of the day, we did not want to expand by compromising our values. We also wanted to continue offering personalized services to our customers. Going by these principles, we could never really open too many branches.”

Nalli’s Business Principles

Retail Pricing Strategy

Nalli applied a uniform pricing margin to all products in its stores across the country. This resulted in a fixed uniform markup over the cost of purchased products from its vendors (see **Exhibit 3** for a sample of inventory and pricing data for the Nalli store in Oberoi Mall in Mumbai). While Nalli was aware of competitor pricing and variations in customer demand and willingness to pay, it deliberately chose to implement this uniform pricing strategy. When asked why Nalli did not change its margin for certain products, S.N. Damodaran, vice president of the Nalli Group, responded, “That’s like discriminating among your own children. Why should I consider one child better than the other? We don’t believe in hiking the margin for a saree because it is exclusive or it took longer to weave. Each saree was produced through hard work and toil.” Nalli applied its uniform margin in all established stores, even when the cost of procuring sarees from centers such as Kanchipuram and delivering them to stores in Mumbai and Delhi would have been higher. Lavanya Nalli clarified, “If there was a significant difference between our cost plus margin and competitor price, we initiate a dialogue with the senior management team to investigate the causes for the price differential, and see if there is scope to negotiate better terms with suppliers to ensure that our buying price is in line with industry best-in-class.” However, the only exception to the uniform pricing strategy was when the

^a “Pure zari” sarees used gold and silver, whereas “tested zari” sarees used copper or a lower quality of silver. According to Lavanya Nalli, many saree retailers typically did not distinguish between the two. She stated, “Because of the considerable price difference between pure and tested zari sarees, a customer may walk away thinking she has obtained a bargain by buying a pure zari saree at a fraction of the cost of what she would buy from, say, Nalli, when in reality the products are not comparable because of the difference in zari.”

Nalli Group entered a new market. Damodaran stated, “When entering a new market, we price according to our competition, as we believe this is necessary to gain a foothold in that market.” This competition-based pricing strategy was usually applied until a year after the new store’s establishment. As the group expanded its operations, however, it would have to evaluate whether a uniform pricing strategy or an alternative strategy that differentiated products based on customer demand, competition, and store locations would maximize profitability.

Retail Portfolio

The Nalli Group’s retail portfolio reflected its commitment to being a one-stop shop for Indian ethnic wear and home furnishings. Nalli offered an array of products with prices ranging from \$2 to \$2,000 and stocked both fast-moving garments such as silk and cotton sarees and slow-moving products such as linens and dhotis.^b In addition, it carried products that were closely associated with the brand, such as Kanchipuram silk sarees, and others that had almost no brand association, such as cotton towels. Beyond its product portfolio, Nalli also took orders for customized sarees, which often led to a long and expensive production cycle. Until recently, the Nalli Group’s strategy to stock a wide range of products had led to profitable sales. But as the group planned to expand and identify its unique value proposition in a competitive environment, it was unclear if a wide portfolio would allow it to maintain profitability.

Real Estate Strategy

Most of the initial stores that were set up by the Nalli Group were housed within properties it owned. However, as it experimented with new formats such as mall-based retail stores, Nalli also rented retail space. For example, Nalli rented 6,300 square feet of retail space in the upscale Oberoi Mall in 2010, where the annual cost of renting the space was close to \$181,000 (see **Exhibit 4** for key data on the Nalli store in Oberoi Mall in Mumbai). This was the second store the group had opened in Mumbai, where real estate prices not only were among the highest in the world but also had had an exponential 154% increase since 2005.¹¹ Despite rising rental costs and space constraints in Mumbai, Nalli’s management was sure that it would not compromise on the personalized services offered to its customers. “We will never open stores without basic facilities for customers like car parking and seating for all. I have often seen in saree shops where the daughter or wife is busy choosing, the poor father is found standing. That won’t happen in Nalli,” Kuppusamy stated. As the group planned to expand, rental rates would affect store profitability. Nalli’s management then would face the choice of either focusing its expansion on Tier-2 cities where rental rates were still relatively low or setting up small stores in the major metro areas.

Shelf Space Management

Shelf space was utilized effectively by Nalli to bring more customers into its stores and increase sales from existing customers. Allocation of shelf space to products within stores was similar across locations, with only minor changes to reflect seasonal and regional preferences. For example, Kanchipuram sarees received close to 20% of shelf space, though these sarees did not consistently perform well in all locations (**Exhibit 3**). Damodaran explained, “They may not be our number-one seller in all locations, but we cannot survive without Kanchipuram silks, since they were our namesake.” Cotton sarees, which were preferred by women across the country for daily wear, were allocated nearly 30% shelf space; there were certain varieties of sarees, such as Bangalore silks, which

^b A *dhoti* was a traditional men’s garment that was wrapped around the waist and legs. It consisted of a rectangular piece of unstitched cloth that was usually 4 to 6 meters long and 1.3 meters wide

were fast moving in all locations and were allotted an entire counter, with the shelves restocked daily. However, with the changing tastes and preferences of its customer segment, Nalli was now considering if it should reevaluate the product categories and SKUs within each category in order to boost sales. For example, in locations such as Chennai, where Nalli's competitors stocked a similar portfolio of traditional silk sarees, Nalli might be able to lure customers away from its competitors by increasing the range of designer and contemporary sarees. Nalli could also benefit from decreasing shelf space for low-value products such as fabrics and dhotis and increasing allocation for items such as the traditional wedding sarees that held strategic relevance in Nalli's portfolio. Nalli could also delegate shelf-space management to the store managers, who would determine space allocation based on customer and competitor profiles in their regional location.

Vendor Management

The Nalli Group had built deep and extensive relationships with weavers in Kanchipuram and other regional weaving centers across the country. In 2007, the company had nearly 5,000 dedicated vendors¹² who supplied exclusively to Nalli. It also had 50 looms under its direct control and another 10,000 looms producing sarees for it in Kanchipuram and other weaving centers. Nalli often consulted its vendors before entering a new location and asked their input on patterns, designs, and color palettes that would reflect the latest fashion trends. Given the long-standing nature of its relationships, Nalli enjoyed flexible terms with many of its vendors. Sarees were given on credit, returns were accepted by select vendors, and payment dates varied from 15 to 90 days (see **Exhibit 3**). As the Nalli Group expanded its operations, it would not only have to deepen relationships with its existing vendors but also have to identify high-quality and consistent vendors in an already shrinking weaving industry.

Nalli's Competitors

In 2010, the textile and apparel industry was one of the largest segments of India's economy, accounting for 15% of the nation's industrial production.¹³ While large, corporate retail chains were positioned to become significant players in the future, the Indian ethnic wear segment continued to be dominated by small, privately owned, regional stores. Across the premium- and medium-priced brands, while most saree retailers enjoyed strong brand loyalty within their regional customer segments, the Nalli Group was in the unique position of being the only saree retailer in India to have a significant national presence (see **Exhibit 2**).¹⁴ As a result, across India, Nalli had become eponymous with silk sarees, so the odds were that "[i]f you owned a South Indian silk saree, chances are that it was probably a Nalli."¹⁵

Being a national retail brand, the Nalli Group faced intense competition from saree specialist stores within each of its regional markets. For example, in Chennai—its flagship location— Nalli's competitors, such as Kumaran Silk Sarees, Pothys, and Sundari Silks, carried similar product lines to Nalli's and were all known for their silk sarees. In Mumbai, however, the Nalli Group competed with stores such as Kala Niketan, Roop Kala, and Sheetal Sarees, all of which carried traditional silk sarees but which also targeted the urban consumer with embroidered and contemporary sarees. While most Nalli stores were located in its own property in busy high-street shopping districts, in 2010 the Nalli Group opened its first mall-based retail store at the upscale Oberoi Mall in Mumbai. However, since the store had recently been established, it was too early to determine if this was the format it should adopt for future expansions.

While many of Nalli's competitors spent aggressively on advertising and marketing, the Nalli Group continued to rely on word-of-mouth publicity to attract customers. The company also did not

offer discounts on its product suite, even though its competitors often sold products at heavy discounts during peak buying season. For example, when several retailers in Chennai announced storewide sales and used marketing strategies such as producing the longest saree and a saree with 60,000 colors, the Nalli Group steered clear. Damodaran, referring to such strategies as “gimmicks,” commented, “We cannot offer anything but good quality, prices, service, innovative designs, and a comfortable shopping ambience, and this will set us apart from our competitors.” Industry experts, however, remained unsure if Nalli’s competitive outlook was realistic, especially given that a recent survey of global shoppers showed that Indian consumers were least loyal to stores and over 60% of them bought at more than one retailer.¹⁶

Looking Ahead

That summer night as Kuppusamy waited for his granddaughter’s flight to arrive, he felt proud of the Nalli Group’s achievements. The 83-year-old retailer rose from modest beginnings to become one of India’s leading saree retailers and had built a brand that was synonymous with silk sarees. However, he also knew that there were several challenges that lay ahead for the company. There was limited brand awareness among the new customer segments, and competition was only intensifying. Sales volumes were also expected to drop due to an increase in the price of raw silk and precious metals such as gold and silver, which were intrinsic to the saree weaving process. The group also faced supply shortages, with many weavers shifting to other vocations. Given these circumstances and Nalli’s objective to ensure the continuation of its long-term, aggressive growth strategy of increasing its national presence and market share, Kuppusamy also wondered whether it was time to revisit the company’s uniform pricing strategy – a policy it applied to all its products across all price bands. After all, the Nalli Group had made its mark as a premier silk saree retailer, so Kuppusamy remained intrigued by the notion of focusing more on its silk saree segment and charging a premium for the reliability and quality that the brand offered. But how, he wondered, would customers and competitors respond to such a drastically different approach? With his meeting with Lavanya Nalli fast approaching, Kuppusamy knew he wanted to discuss the following questions with her. Should Nalli change its pricing policy? Why, or why not? And finally, how would it be implemented?

Exhibit 1 Select Information on the Nalli Group – 2010

Year Founded	1928
Number of Retail Stores	
Domestic	20
International	2
Ownership Structure	Private trust with family members as trustees
Senior Management	
Chairman	Dr. Nalli Kuppusamy Chetty
Vice Chairman	Mr. Ramnath K. Nalli
No. of Employees	
Sales Staff	2,000
Executive Staff	15
Others (on contract etc.)	50
Total retail space across all stores (sq. ft.)	200,000
Product Suite	
Women's wear	Sarees (silk, cotton, polyester), Salwar Kameez ^a (ready to wear, unstitched sets, fabric), Kurtis ^b
Men's wear	Dhotis, Lungis, Kurtas,
Children's wear	materials and ready to wear options
Home furnishing	Linen, curtains, upholstery
Other products	Towels, shawls
Revenue (\$)	95 million ^c

Source: Company documents.

^aSalwar kameez is a long tunic worn over loose pants.

^bReady-to-wear women's tunic or shirt without a collar.

^cExchange rate for conversion \$1 = Rs 52.

Exhibit 2 Nalli's Retail Presence—2010

Locations	Number of Stores
<i>South India</i>	
Chennai, Tamil Nadu	4
Madurai, Tamil Nadu	2
Coimbatore, Tamil Nadu	2
Tiruchirapalli, Tamil Nadu	1
Tirunelveli, Tamil Nadu	1
Kanchipuram, Tamil Nadu	1
Bangalore, Karnataka	3
Hyderabad, Andhra Pradesh	1
<i>North and West India</i>	
New Delhi	3
Mumbai, Maharashtra	2
<i>International</i>	
California, USA	1
Singapore	1

Source: Company documents.

Exhibit 3 Sample of Inventory and Pricing Data for Nalli Store in Oberoi Mall in Mumbai—2010

UNIT	KANCHIPURAM SILK SAREES	BANARES SILK SAREES	EMBROIDERY SAREES	COTTON SAREES	READY TO STITCH SETS ^a	MATERIALS ^b	DHOTIS
Purchase Price (Average) ^c	\$ 123.08	110.58	112.50	14.23	12.98	4.81	12.98
Sale Price (Average)	\$ 162.97	146.42	148.96	18.84	17.19	6.37	17.19
Inventory	Pieces in stock	415	286	2,860	2,222	4,650	135
Quantity Sold (monthly)	Pieces sold	261	187	1,938	1,435	3,229	75
Shelf Space Allocated	Ft.	20	15	30.25	10	20	4.75
Time Spent on a Typical Day by One Sales Person	Number of hours	1	1	1	0.5	1.5	0
Payment Terms for Vendors	Days Payable	90	45	15	15	30	15
Special Agreement with Vendors	--	Long relationship. Returns accepted within due dates. Vendors in this range keep changing. No discounts available. discount.	Returns not accepted.	Returns not accepted. Greater number of vendors. Vendors in this category keep changing.	Returns not accepted. Vendors in this category keep changing.	Returns not accepted. Greater number of vendors. Vendors keep changing.	Returns not accepted. Fewer than 10 vendors. Though there are many types of dhotis, Nalli only sells those used for special functions.
Customer returns accepted	Yes/No	Yes	Yes	Yes	Yes	No	No
Cost of capital for commercial entities in 2010 was approximately 15 percent per annum							

Source: Company documents.

^a Ready-to-stitch sets for salwar kameez.

^b Unit in meters.

^c Exchange rate for conversion \$1 = Rs 52.

Notes: Data has been disguised to protect confidentiality. Product prices differ from item to item within a given category.

Exhibit 4 Key Data for the Nalli Store in Oberoi Mall in Mumbai

Year started	2010
Number of employees	35
Sales staff	30
Administration	3
Others	2
Total area (sq ft) ^a	6,300
Floor space (sq ft) ^b	3,780
Shelf space (ft) ^c	125
Fixed and Operational Costs ^d (\$)	
Rent	181,731
Salary	64,904
Utilities	112,404
Other costs at store level	33,269

Source: Company documents.

^a Total area on which rent was paid.

^b Total retail area of the store where products were displayed and sales were made. Did not include back office or warehouse space.

^c Total space available in the store to display products.

^d Exchange rate for conversion \$1 = Rs 52.

Endnotes

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¹⁵ "Nalli's Mother Daughter Duo Wrap Big Plans for Silk Sari," Moneycontrol.com, July 5, 2012, http://www.moneycontrol.com/news/cnbc-tv18-comments/nallis-mother-daughter-duo-wrap-big-plans-for-silk-sari_726659.html, accessed July 2012.

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