

## How half the world shops: Apparel in Brazil, China, and India



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China: Small budgets, small wardrobes



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**In emerging markets** around the world, the spending power of consumers is rapidly changing the retail industry, both globally and locally. Multinational retailers seeking new sources of growth are watching the mass markets of Brazil, China, and India, whose large populations and strong economic growth have made them nearly irresistible. As consumers have greater disposable income, they increasingly spend their money on items beyond the basic necessities. One of the first categories to feel this change is apparel.

To understand more fully what it would take for retailers to succeed in these markets, McKinsey conducted a proprietary research project on apparel-shopping attitudes and behavior in Brazil, China, and India. Our sample

consisted solely of women,<sup>1</sup> who in many markets not only decide what clothes to buy for themselves but also influence clothing purchases for their children and husbands. We supplemented this quantitative research with dozens of focus groups, store visits, interviews, and shopping diaries.

“China: Small budgets, small wardrobes” shows how that country’s fickle consumers and strong local competitors threaten to undermine the multinationals’ efforts. “India: Shopping with the family” explains the different roles that Indian women, men, and children play in making decisions about apparel and the way the market there is evolving. “Brazil: Fashion conscious, credit ready” describes the country’s enthusiastic shoppers, as well as the efforts of banks and retailers racing to meet their credit needs.



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Brazil: Fashion conscious, credit ready



The authors wish to acknowledge the contributions of their colleagues Susan Breuer, Claudio Lensing, Savita Pai, and Khiloni Westphely.

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<sup>1</sup> We surveyed 6,000 consumers of food, apparel, and electronics in Brazil, China, India, and Russia, including 900 women across Brazil, China, and India, specifically on apparel. In addition we surveyed 1,600 shoppers in France and the United States for the purposes of comparison.

### **In memoriam**

*We dedicate this collection to the memory of Alastair Ramsay, a partner in McKinsey's London office, who founded and led this research project. Alastair passed away in June 2007.*

*He inspired us with his commitment to client service, as well as his warmth and compassion as a leader.*



## China: Small budgets, small wardrobes

*China's clothing consumers are legion, but inexperienced about subcategories, quality, and features. Global retailers can help.*

**Wai-Chan Chan, Richard C. Cheung, and Anne Tse**

**Despite rapid growth,** China's apparel market presents global retailers with significant challenges. A McKinsey survey of Chinese consumers underscores the difficulty multinational retailers may face in applying to China their tried-and-true formulas for differentiating products and brands and suggests that they should adopt new approaches in areas such as in-store sales and advertising. Moreover, the survey highlights important differences between average Chinese apparel shoppers and the country's young adults—a group that offers global retailers some intriguing possibilities.

These findings emerged from a research effort that combined a quantitative survey of urban mass-market consumers with qualitative research techniques, including shopper diaries, store visits, and focus groups.<sup>1</sup> We studied the mass market because it increasingly drives the rapid growth (12 percent a year) of China's \$84 billion retail apparel market and represents a significant opportunity for foreign retailers to expand beyond the high-end consumers they have served since the early 1990s<sup>2</sup> China's apparel market is now the world's third largest—behind only the United States (\$232 billion) and Japan (\$100 billion)—and the fastest-growing in the “BRIC” countries: Brazil, Russia, India, and China. Seventy percent

<sup>1</sup> We surveyed the apparel-shopping attitudes and behavior of 300 women, who in China (as in many other markets) not only decide what clothes to buy for themselves but also influence the clothing purchases of their children and husbands.

<sup>2</sup> For research purposes, we defined Chinese high-end (or global) consumers as those with annual household incomes greater than \$12,200 (at 2005 exchange rates); mass-market consumers, incomes from \$3,000 to \$12,200; and struggling consumers, incomes below \$3,000. The mass market can be further subdivided into a “consuming” group (with incomes from \$5,000 to \$12,200) and an “aspiring” one (\$3,000 to \$5,000).

of apparel sales in urban China take place in modern formats (typically, department stores, though more specialized shops have recently begun to emerge).

Our research indicates that China's mass-market consumers have relatively small, undifferentiated wardrobes. Forty percent of the Chinese respondents, for example, report wearing similar clothing at work, formal social occasions (such as weddings), and dates with friends or family, compared with only 8, 13, and 11 percent of consumers in Brazil, India, and Russia, respectively. Although habits are changing, apparel retailers in China may find it more challenging than they do in other emerging markets to establish themselves as specialists in clothing subcategories, such as ladies' office clothing or specialty outdoor casual clothing.

Moreover, Chinese consumers of apparel don't appear to place a premium on foreign brands. Only one-quarter of the respondents say that such brands offer better value than local ones do, for instance, and only 11 percent report frequently trying on foreign offerings. These figures stand in stark contrast to our findings in India, where about 50 percent of respondents say that international brands are superior in value or quality. What's more, Chinese shoppers seem to rely more heavily on price to form their perceptions of a product's quality than do shoppers elsewhere. Whereas nearly half of the respondents in Brazil, India, and Russia believe that they can quickly assess the quality of a garment without taking its cost into account, only 22 percent of Chinese consumers say the same.

China's urban young adults, from 18 to 25 years old—a segment comprising about 15 million people—represent an exception to these tendencies. Many young consumers favor international brands. Half agree that “foreign brands are higher quality than local brands,” compared with an average of 15 percent across all other age cohorts. Similarly, 36 percent of China's young adults say they often try on foreign products and brands, compared with an average of only 13 percent of other respondents. Although young consumers behave differently from older ones in all of the countries we studied, the differences in China were by far the most pronounced (Exhibit 1). There young consumers also shop for apparel more frequently than do people in other age groups, spend larger sums on clothing, and are disposed to spend even more as their incomes rise (Exhibit 2).

These findings have several implications for global retailers. Clearly, targeting the young is a ripe opportunity and may require fewer changes to traditional merchandising and marketing approaches than serving older consumers would. To reach this brand-savvy segment, multinationals can create new, niche brands that convey specific personality traits—

for example, irreverence or creativity. Retailers can also create lower-priced extensions of existing brands, as France’s Etam has with its “Etam Weekend” line.

Further, multinational retailers should help shoppers become better informed about clothing subcategories, product quality, and international brands. The recent strong growth of sportswear subcategories such as hiking and mountain-climbing lifestyle apparel suggests that the Chinese consumer’s desires are changing and could change faster if nudged. Companies that seek to shape the mass market’s evolution—say, through in-store sales efforts that highlight product features, seminars to help consumers discern product quality and craftsmanship, or advertising focused on the benefits of particular subcategories—should help improve customer satisfaction and loyalty. Esprit, based in Hong Kong, has successfully extended its brand into an increasingly diverse range of clothing lines (including casual, sporting, and work) by combining in-store elements (such as tailored display racks, lighting, and music) to communicate the essence of various subcategories.

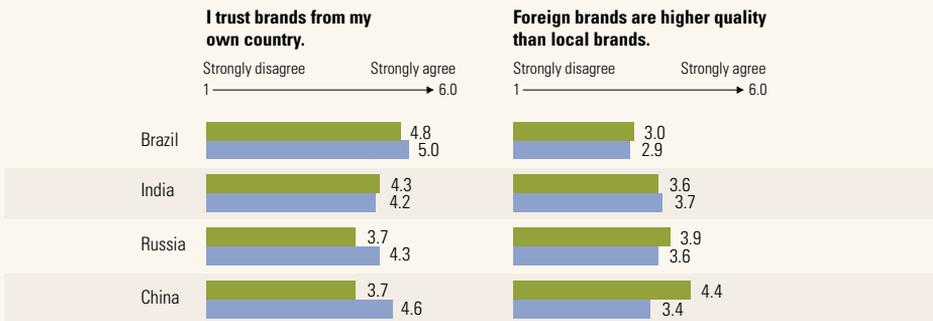
As global retailers contemplate China’s mass market, they must recognize that they face more powerful local competitors there than in the higher end of the market. Indeed, the cost advantages of local players and their increasing ability to learn from global retailers’ store layouts and promotional campaigns will likely make it difficult to enter China’s

EXHIBIT I

**Young shoppers**

Average score on scale of 1–6, where 1 equals ‘strongly disagree’ and 6 equals ‘strongly agree’

- Young adults (aged 18–24)
- All others



Source: 2006 McKinsey survey of apparel-shopping attitudes and behavior of 300 women in each country (in these markets, women are primary influence on clothing purchases for entire family)

EXHIBIT 2

**Devoted to clothing**



<sup>1</sup>For ages 18-24, n = 22; ages 25-34, n = 106; ages 35-44, n = 98; ages 45-54, n = 51; ages 55-64, n = 33; bases are weighted to adjust for each age group's relative share in population.

<sup>2</sup>1 renminbi = \$0.13 in 2006.

Source: 2006 McKinsey survey of apparel-shopping attitudes and behavior of 300 women in each country (in these markets, women are primary influence on clothing purchases for entire family)

mass market with a pure-value play. An alternative approach, which multinationals such as Zara are starting to use, involves identifying consumers willing to pay more for the latest fashions. By creating low-cost yet trendy stand-alone outlets in upscale malls or shopping districts (as opposed to department stores), retailers can appeal simultaneously to mass-market consumers with premium tastes and to higher-end customers prowling for bargains. Such strategies hold great promise as China's mass market grows larger and richer. **Q**

**Wai-Chan Chan** and **Richard Cheung** are principals and **Anne Tse** is an associate principal in McKinsey's Hong Kong office.



## India: Shopping with the family

*The Indian apparel market has some distinctive features that mass-market retailers must accommodate.*

**Kartik N. Sheth and Ireena Vittal**

**Indians devote** roughly the same share of their income to apparel as do Chinese and Brazilians. But the country's lower per capita income levels mean overall spending on apparel is significantly lower, and the habits of Indian shoppers present intriguing challenges for multinationals eyeing the market.<sup>1</sup> For starters, nearly 40 percent of the mass-market Indian shoppers<sup>2</sup> we surveyed said that their most important shopping occasions revolved around special events, such as weddings and annual religious festivals—a figure dramatically higher than the one for shoppers in the other emerging markets we studied. Furthermore, to a greater extent than elsewhere, shopping is a family activity in India: nearly 70 percent of its shoppers always go to stores with family, and 74 percent—more than twice the average of Brazil, China, and Russia—view shopping as the best way to spend time with family. The preference for family-oriented shopping is consistent across age groups, income segments, regions, and city sizes.

As in many markets, in India women are the primary decision makers in apparel purchases for the entire family. But India's men also have an

<sup>1</sup>In India, laws governing foreign investment by retailers are slowly evolving. Currently, single-brand foreign retailers may hold controlling stakes (up to 51 percent), but multibrand foreign companies are able to invest only in the “cash-n-carry” segment (up to 100 percent) or buy a stake in a publicly listed retailer (up to 26 percent). In a cash-n-carry operation, a wholesaler sells to offices, hotels, and retailers that become its members.

<sup>2</sup>In India, rather than using only income bands to define categories of consumers, we used the socioeconomic class codes established by the Market Research Society of India. High-end or “global” consumers are those in socioeconomic class (SEC) A, mass-market consumers are those in SECs B and C, and struggling consumers are represented by SECs D and E. In addition to household income, the class codes incorporate levels of education and occupation.

## EXHIBIT

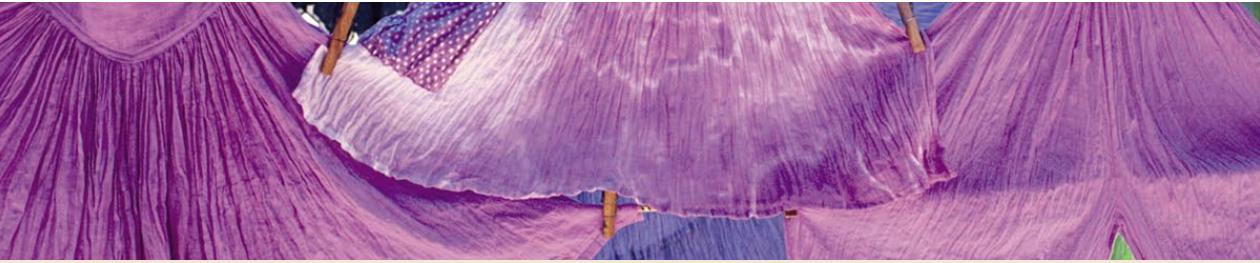
**A family affair**

<sup>1</sup> Respondents in India were allowed to select more than 1 category of clothing (eg, home, work, special occasions).

Source: 2006 McKinsey survey of apparel-shopping attitudes and behavior of 300 women in each country (in these markets, women are primary influence on clothing purchases for entire family)

important role: indeed, half of our survey respondents said that their husbands had a major influence on which stores they frequented—a proportion far higher than the one for Brazil (3 percent), China (8 percent), and Russia (18 percent). What's more, India is unusual in that the market for men's apparel is larger than the women's market, where traditional Indian apparel still dominates. Mass-market apparel retailers must therefore find formats and merchandising approaches that will attract shoppers seeking apparel not only for special occasions but also appealing to the entire family. **Q**

**Kartik Sheth** is a consultant and **Ireena Vittal** is a principal in McKinsey's Mumbai office.



## **Brazil:** Fashion conscious, credit ready

*Local stores dominate Brazil's mass-market retailing. Is there room for the multinationals?*

**Manuela Artigas and Nicola Calicchio**

**Brazil's apparel market**—large, growing, and mostly untapped by multinational competitors—seems like a big retailer's dream. A McKinsey survey of the country's consumers, however, underscores the significant challenges for global players. These issues include product demands that differ from those in their home markets, a strong preference for local fashions, and the unique combination of widespread consumer credit use and an undeveloped consumer credit market.

We reached those conclusions by combining a quantitative survey of Brazil's urban mass-market consumers with qualitative research that included shopper diaries, store visits, and focus groups.<sup>1</sup> The subject of our analysis is the world's fifth-largest apparel market, which is growing at 7 percent a year. Although multinational retailers (such as Mango, Miss Sixty, and Zara) have succeeded in serving the country's wealthy consumers for several years, very few global retailers compete in its mass market.<sup>2</sup> Instead, informal "mom-and-pop" stores (some of which skirt taxes to obtain a competitive edge) and large local single-format retailers dominate Brazil's mass market, ringing up more than 60 percent of the country's apparel sales.<sup>3</sup>

<sup>1</sup>To survey Brazilian attitudes toward credit, we drew on a larger sample encompassing 300 apparel consumers, plus 1,200 food shoppers. (For more on the results of our food research in Brazil, see Nicola Calicchio, Tracy Francis, and Alastair Ramsay, "How big retailers can serve Brazil's mass-market shoppers," *The McKinsey Quarterly*, 2007 special edition: Shaping a new agenda for Latin America, pp. 50–7.

<sup>2</sup>We define mass-market consumers in Brazil as those with annual household incomes from \$3,000 to \$15,000 a year (at 2005 exchange rates).

<sup>3</sup>For more on informal retailers and mom-and-pop stores, see Alejandro Díaz, Jorge A. Lacayo, and Luis Salcedo, "Selling to 'mom-and-pop' stores in Latin America," *The McKinsey Quarterly*, 2007 special edition: Shaping a new agenda for Latin America, pp. 70–81.

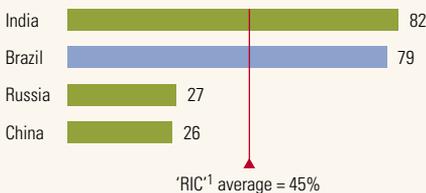
As multinational apparel retailers contemplate entering Brazil's mass market, they must come to grips with a consumer landscape that differs considerably from what they find in most developed and many emerging markets. For starters, Brazil's consumers are extremely fond of shopping for clothes: almost 80 percent of our respondents look forward to it, a figure much higher than those for China and Russia, though about the same as the one for India (Exhibit 1). In addition, more than half of Brazil's shoppers say they use most of the clothing they buy for going out with friends and family; the proportion giving that answer in China, India, and Russia is much lower (Exhibit 2).

Furthermore, Brazil's mass-market apparel shoppers seem particularly conscious of fashion; only in Brazil did it rank among the top three attributes at preferred stores. Fashion trends there are strongly shaped by local celebrities (in particular, prominent characters from popular television soap operas), and only local retailers (with a few noteworthy exceptions) consistently offer the mass-market segment these fashions. Today many of these local retailers and the local brands they sell are highly regarded by Brazilian shoppers: 81 percent of our respondents agree with the statement, "I trust local brands," compared with a bit less than half of those we surveyed in China, India, and Russia. Similarly, only 11 percent of Brazilians agree that "foreign brands are higher quality than local brands"—a proportion much smaller than it is in the other countries we studied, although shoppers there also exhibit some degree of resistance to foreign brands (Exhibit 3). Some of the multinationals that have had more success in the Brazilian market, such as the European apparel retailer C&A, have established local identities, for example, by running campaigns featuring Brazilian supermodels.

## EXHIBIT 1

**Shop until you drop**

% of respondents who look forward to shopping for clothes



<sup>1</sup>RIC = Russia, India, China.

Source: 2006 McKinsey survey of apparel-shopping attitudes and behavior of 300 women in each country (in these markets, women are primary influence on clothing purchases for entire family)

Finally, Brazilians are far more open to using credit than are consumers in the other markets we studied. More than 60 percent of the respondents in Brazil agreed with the statement, "I think it is perfectly all right to shop for products on credit," for example, compared with 30 percent in India, 24 percent in Russia, and 13 percent in China. What's more, 65 percent of the Brazilians had bought something on credit during the past six months, compared

EXHIBIT 2

**For work or play**

Most of the clothing I buy is for . . .	% of respondents who agree or strongly agree <sup>1</sup>				
	Brazil	Russia	India <sup>2</sup>	China	'RIC' <sup>3</sup> average
. . . going out with my family and friends	54	32	23	24	27
. . . work	17	27	10	25	20
. . . all-purpose use (eg, undergarments, socks)	8	16	26	22	21
. . . home	8	13	25	13	17
. . . special occasions (eg, weddings, festivals)	5	3	38	6	16

<sup>1</sup>Figures do not sum to 100%, because respondents who answered "other" are not shown.

<sup>2</sup>Respondents in India were allowed to choose more than 1 answer.

<sup>3</sup>RIC = Russia, India, China.

Source: 2006 McKinsey survey of apparel-shopping attitudes and behavior of 300 women in each country (in these markets, women are primary influence on clothing purchases for entire family)

EXHIBIT 3

**Local vs foreign brands**

	% respondents who agree or strongly agree		
	Brazil	'RIC' <sup>1</sup> average	Difference
Foreign brands are higher quality than local brands	11	27	-16
I often try foreign products and brands	12	24	-12
I trust local brands	81	48	33

<sup>1</sup>RIC = Russia, India, China.

Source: 2006 McKinsey survey of apparel-shopping attitudes and behavior of 300 women in each country (in these markets, women are primary influence on clothing purchases for entire family)

with 25, 9, and 8 percent of the shoppers in Russia, China, and India, respectively. This comfort with debt has fueled the spectacular expansion of Brazil's credit industry, whose revenues have grown at rates exceeding 26 percent a year since 2001.<sup>4</sup>

Paradoxically, however, Brazil's credit-reporting system is relatively undeveloped. The country's banks give the credit providers information

<sup>4</sup>Alexandre J. Sawaya, "Financing Latin America's low-income consumers," *The McKinsey Quarterly*, 2007 special edition: Shaping a new agenda for Latin America, pp. 58-69.

about consumers who have defaulted on debts but not about their “positive” credit histories (for instance, repaying debt on time).<sup>5</sup> Because of the absence of comprehensive credit profiles, general-purpose credit cards are rare in Brazil, particularly among mass-market consumers. Still, the proclivity of Brazilians to buy clothes on credit means that retailers face a competitive disadvantage if they restrict their customers to cash payments. All major local and multinational apparel retailers therefore offer cards with low initial spending limits that increase as consumers prove their creditworthiness.<sup>6</sup> These private-label cards—offered through retailer-owned finance operations or joint ventures with banks—now finance around 70 percent of total sales for Brazil’s larger apparel retailers and sometimes generate profits comparable to those that retailers earn from apparel purchases.

Multinationals eyeing opportunities in Brazil’s mass market for apparel will thus need to develop new skills, since they would be competing against local retailers that often are better credit underwriters for mass-market customers than are large retail banks. (Local retailers, for instance, have higher penetration and lower loss rates.) Multinationals will also have to manage their promotions differently. In developed markets, promotional campaigns, for example, tend to be seasonal and product specific, but apparel retailers in Brazil use attractive credit offerings, such as installment payments, to entice customers.

To take advantage of Brazil’s unique market characteristics, the multinationals will have to concentrate on hiring strong local management teams that excel both at merchandising and at helping to craft competitive credit offerings. Domestic retailers, for their part, should capitalize on their skill advantages by expanding beyond the major cities, competing in new formats, and taking market share from the informal retailers—thus capturing the large growth opportunities before their multinational competitors can. **Q**

<sup>5</sup>This situation contrasts starkly with the one in most developed countries, where lenders have access to both positive and negative information, and consumers with positive histories can get more credit and lower interest rates. For more on this topic, see Andre Bailey, Suzi Chun, and Jeffrey Wong, “Wanted: Asian credit bureaus,” *The McKinsey Quarterly*, 2003 special edition: The value in organization, pp. 16–9.

<sup>6</sup>Smaller, less-sophisticated retailers who can’t afford to offer credit cards often allow shoppers to pay for purchases in installments, with postdated checks.

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