
A Case Study : Beyond Profits-Fabindia- A New System of Inclusive Capitalism

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Abstract

Fabindia is India's largest private platform for products made from traditional techniques, skills and hand-based processes. Fabindia's products are natural, craft based, contemporary, and affordable. This retail outlet promotes unique model of inclusive capitalism that procures through COC (community owned companies). Fabindia's model acts as the value adding intermediaries i.e. between the company and rural producers in India. It has established links with over 80,000 craft based rural products for modern urban markets. Thereby the company has been contributing to the process of creating a base for skilled and sustainable rural employment as well as preserving India's traditional handicrafts. These Rural Craft Companies connected to Fabindia are owned by the local communities of artisans; a minimum 26% shareholdings of these companies are that of craft persons. Fabindia has established its own social standard in India and abroad. Today Fabindia is a major player in the retail handloom sector in India due to the fact that the company has always believed in "good business practices and never compromised on best quality". Fabindia believes that a delighted customer is their best Brand ambassador. Their USP in marketing lies in quality of fabric. The company heavily relies on the word of mouth marketing. They say 83% of customers go satisfied and 59% go highly satisfied as told by Bissel to Economic Times. This revolutionary organization is said to be the next big thing in societal betterment through its commitment to Corporate Social Responsibility, Value based Marketing and Exemplary HR Practices.

Key words : Community, COC, Retail, Inclusive Capitalism .

About the company

Founded in 1960 by John Bissell to market the diverse craft traditions of India, Fabindia started out as a company exporting home furnishing fabrics. By early eighties, Fabindia was already known for garments made from hand woven and hand printed fabrics. The non-textile range was added in 2000, while organic foods which formed a natural extension of Fabindia's commitment to traditional techniques and skills was added in 2004, personal care products in 2006. Handcrafted jewellery was

introduced in 2008. Today, with a pan-India presence, Fabindia is the largest private platform for products that derive from traditional crafts and knowledge. A large proportion of these are sourced from villages across India where the company works closely with the artisans, providing various inputs

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including design, quality control, access to finance and raw materials. Fabindia's endeavor is to bring customers a choice of products – and lifestyle – that offers an alternative to the mass-produced, while creating sustainable livelihoods in the rural sector. Today it is present in 6 countries, 74 cities with 169 stores.

Mission of the company is well stated by Bissell in 2010 at the 50th anniversary of Fabindia as he said "When you recognise the value of crafts, you will be paying a higher price for it. When you pay a higher price, it translates into higher wages for weavers and craftspeople,". "We have made nearly 700 employees shareholders of the company this year. We felt that it went with the beliefs of the company. As stakeholders, they have developed a sense of ownership towards the company," Bissell, told.

Value Creation and Diversification : Basis of Fabindia's success

Fabindia is synonymous with the country's handloom revolution. The birth of the chain in 1960 marked the beginning of the transformation of traditional Indian fabrics into fashion textiles for apparel and designer home decor. It also pushed traditional Indian weavers to the American market. The company is a great model to exhibit how to generate both profits and social betterment for the artisans. Fabindia's success and influence are indisputable—while one share sold for INR 5,000 (US\$110) in 1977, today, one share is worth INR 16 million (US\$350,000).

A fully-owned subsidiary of Fabindia, Artisans Micro Finance, a venture fund, facilitates the setting up of these companies which owns 49 per cent by the Venture Fund, 26 per cent by the artisans, 15 per cent by private investors and 10 per cent by the employees of the community-owned company. It is called the Artisans Micro Finance Private Limited (AMFPL) the Venture Fund which is a fully owned subsidiary of Fabindia.

Community-owned Companies (COC): A New pattern of Inclusive Capitalism

Fabindia has facilitated the setting up of Community Owned Companies (COCs) three years ago to help

artisans make their Products more accessible. These public limited companies function like aggregators where geographically close clusters of artisans hold shares and have individual votes in decision-making. Fourteen of the COCs have already started turning a profit of which 12 declared dividends for their shareholders in 2010.

Usually, the village-based artisan gets barely 5% of the tag price of their products as the rest is taken away by the middlemen. To counter this, Fabindia introduced an artisan-shareholder system through "supply-region companies" incorporated as subsidiaries. The artisans gain in many ways. The value of their shares goes up. They earn dividends when the company is in a position to declare them. Eventually the company try to offer loans to the artisans arranged through banks. This has not only resulted in a strong sense of ownership in the artisans but also ensures and maintains Fabindia's supply chains. Seventy per cent of staff across all levels own shares in Fabindia because of which employees have a voice in the company's business decisions. The sense of responsibility in the company has increased because every employee is made aware of his or her rights and obligations as a shareholder.

Artisans' alternative Asset Creation through Community Owned Companies:

The Category of assets i.e. shares offered to artisans are divisible. These are different from land that can be divided but often dispute erupts in the process and jewellery which is largely indivisible. Community-owned companies help Fabindia's artisans to be asset holders of more liquid assets such as shares.

Everything Fabindia sells has the "element of the shareholders hands" in it. The community-owned companies offer the persons option of a better life. "If he wants to get his daughter married and needs money, he can sell his shares and realize the appreciation. He can also take a loan by offering his shares as collateral," says Bissell. The loans can be used to buy new looms or expand production of other products. An internal trading mechanism will allow artisans to trade their shares. Although the villagers see it as a gamble, there is already

evidence that it works. As many of them hold 10 shares each, their investment of Rs 1,000 has tripled to Rs 3,000, an escalation they couldn't have dreamed of. Through a complicated internal trading system, an artisan can - if he wishes - recover his investment.

Other Changes through New System

The new model is changing the way Fabindia works. The typical central warehouse system has given way to several warehouses by community-owned companies from which goods travel directly to stores across India. This reduces logistics costs and minimizes the role of middlemen. While the system seems to be working for all concerned, challenges remain. One of them is developing secondary markets so that the companies can stand on their own feet. Critical to that will be introducing a "consciousness" of the design element among artisans so that their products have a wider appeal. Bissell says the model will depend on the artisans beginning to understand the benefits of joining together in something that's not a cooperative.

Thus, the company's socially conscious business model is designed to ensure a deep reach to artisans in remote corners of the country with a commitment to keeping the traditional crafts alive in India.

- The company is here to do business and is answerable to its shareholders and employees.
- The creation of skilled, craft-based, sustainable jobs in the rural sector.
- To keep interests alive among the artisans
- To ensure that what they manufacture has a direct link to the market
- To create a market for their products
- To ensure that the customers are satisfied with what they are paying for and getting an authentic product.

- Fabindia's ethos - Hiring to translate passion for our business ideology into satisfying careers.

Fabindia has a very strong value system and culture, of which continuous improvement is an intrinsic part. The ratio of HR to staff is 1:125, which translates into 13 HR personnel for 1500 employees. The exponential growth from 15 stores in 2005 to 169 as of date, means that the maximum number of employees have been added in the last five to six years. Seventy-one percent are below the age of 35 years and are not highly qualified. Managing their aspirations for growth which is limited by their education and capability and yet engaging and motivating them has been a challenge. Fabindia has articulated a set of seven core values which include honesty, transparency and fairness in intent, based on the feedback and experience of the employees.

The company maps and tracks expressions of any ideological or value system aberrations through 360 degree employee surveys and makes the necessary corrections. It further emphasizes on:

- Gender Bender
- Employees as Owners
- Cultivating an Entrepreneurial Work Culture
- Creating the Drive for Excellence

Fabindia employs 2500 people. It is an equal opportunity employer with a favorable men to women ratio across the organization. However, at the executive level 76 percent are women. Most stores have women at leadership levels which is also very challenging because women juggle many priorities at the same time. The organization supports the careers of women, some of whom have joined the organization straight out of school or college with leadership training, employment opportunities and leadership positions across all levels. The predominance of women in leadership positions is a direct translation of Fabindia's philosophy of empowering women.

In recognition of the contribution made by employees in achieving the 50-year milestone in

2010, Fabindia gave shares to every employee who had served a minimum of one year. Around 700 employees were empowered by this process. Given that the company posted a substantial net profit on standalone revenue in 2010-11, this translates into wealth creation at a sizeable level. An exponential increase in the value of shares last year has made it worth the employees' to invest in the company. This commitment to the creation of wealth for employees creates feeling to work the success of the organization.

In Fabindia, each geographical region is handled in a decentralized fashion with market regional heads working as entrepreneurs to generate sales and contribute to the revenue of the company. Each store is a business unit with its own profit and loss accountability. Since the company has a strong profit sharing philosophy, a bonus system rewards overachievement. For instance, a 120 percent achievement of sales, translates into a 120 percent incentive.

Another aspect of the entrepreneurial culture is expressed through the COCs. Existing employees were offered the opportunity to become a part of these companies as Senior Management and Managing Directors. Even though this required relocation to second and third tier metros, several employees took on the responsibility because of

the implied autonomy and to some extent, the weight of the designation.

William and John Bissell established "The Fabindia School" in 1992 in Bali, in Pali district of Rajasthan. Today, it is co-educational, senior secondary school with 600 students including 40% girls. The school subsidized tuition fees of the girl students and offers them scholarships in partnership with "The John Bissell Scholars Fund", introduced in 2000.

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