INSEAD

INSPECTION COPY
Not For Reproduction

Marks & Spencer and Zara: Process Competition in the Textile Apparel Industry

02/2002-4974

This case was written by Nicolas Harlé, Boston Consulting Group MBA Fellow, Michael Pich, Assistant Professor of Operations Management, and Ludo Van der Heyden, the Selvay Professor for Technological Innovation and the Wendel/CGIP Chaired Professor for the Large Family Firm, both at INSEAD. It is intended to be used as a basis for class discussion rather then to illustrate either effective or ineffevtive handling of an administartive situation. Financial support and numerous inputs from Boston Consulting Group and its associates are warmly acknowledged. The case was written largely on publicly available information. A detailed list of sources is provided in the endnotes to this case.

Copyright © 2002 INSEAD, France-Singapore.

N.B. PLEASE NOTE THAT DETAILS OF ORDERING INSEAD CASES ARE FOUND ON THE BACK COVER. COPIES MAY NOT BE MADE WITHOUT PERMISSION.

Distributed by The European Case Clearing House, England and USA.
North America, phone: +1 781 239 5884, fax: +1 781 239 5885, e-mail: ECCHBabson@aol.com.
Rest of the World, phone: +44 (0)1234 750903, fax: +44 (0)1234 751125, e-mail: ECCH@cranfield.ac.uk.
All rights reserved. Printed in UK and USA. Web Site: http://www.ecch.cranfield.ac.uk.

INSPECTION COPY
Not For Reproduction

On September 8, 2000, Marks & Spencer initiated a £20 million advertising campaign with a television commercial of a Rubenesque, size-16 woman running up a hill, tearing off her clothes and standing naked at the top of the hill screaming "I'm normal!"[i] Some saw this as a long-awaited recognition by the textile industry that the average British female was not well represented by the waif-like figures idolized in most advertisements. Others saw it as a desperate attempt to reclaim customers who had apparently deserted the well-established British retailer in favour of more fashionable and equally well-priced competitors. Still others saw it as pornographic and insisted that the advertising campaign be banned.

"I'm normal!"

In response to accusations of complacency following poor sales figures over several seasons of fairly unappealing women's wear ranges,[1] M&S introduced changes in management, launched a 'trendy' designer collection called "Autograph", and actively promoted its offering of 'real clothes for real women'.

Peter Salsbury had been nominated on February 1, 1999 as the new M&S Chief Executive, with a clear mission to make the changes necessary to transform and adapt M&S to the evolutions affecting the entire textile apparel industry. He rapidly announced a major reorganization and embarked upon decentralization through a *Return to Recovery Programme* designed to *create clear profit centres*, *change the way M&S bought goods*, *restore overseas profitability*, and *build financial services*.

Amongst others, it signalled M&S's commitment to rationalise its supplier base. For example, prior to the recovery program, clothes produced in Honk Kong had to go first back to a central warehouse in the UK before being flown back to Asia's M&S stores, necessitating 24 plane shipments per week! Salsbury also commented that M&S would "*from now on buy its textiles much later*[ii]". Aside from the rationalisation efforts for sourcing and the acceleration of the design-to-store lead-time, M&S closed operations in Canada and six of its stores in France and Germany, and cut UK management staff by over 1,000 employees, including Simon Marks' great grandson.

Moreover, M&S promised to try everything to make its customers buy more in 1999. The firm would spend over £20 million in advertising, displays in the stores would be rejuvenated, prices lowered, more fashion introduced, and store managers more 'empowered.'

Salsbury's announcement of the *Recovery Programme,* right after a 50% drop of the stock price between November 1998 and April 1999, proved ineffective. M&S's stock price fell by another 17% and the heavy changes initiated proved insufficient. By September 2000, Luc Vandevelde, who had been appointed Chairman of M&S in January 2000, accepted Salsbury's resignation and added the role of Chief Executive to his duties as Chairman.

---

1 While M&S was still the leading UK retailer of women's wear in 1999, with 13.5% of the British market, their market share had steadily declined from 16.7% and 16.1% in 1997 and 1998, respectively. Their share of the men's wear market also dropped from 13.9% in 1998 to 12.3% in 1999 (*tdctrade.com*, November 2000).

INSPECTION COPY Not For Reproduction

INSPECTION COPY Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

INSPECTION COPY
Not For Reproduction

Marks & Spencer - A Century of Innovation

The history of Marks & Spencer (M&S) dates back to 1884, when Michael Marks, a Russian refugee, set up his *Penny Bazaars* at town markets in Northern England. Not proficient in English, he invented the famous motto *"Don't ask the price – it's a Penny"*. It gave his *Penny Bazaars* instant recognition and growth.

In 1894, Michael Marks partnered with Thomas Spencer. The business grew significantly, with 36 stores in 1903, 140 in 1914 and 234 in 1939. Family control was lost temporarily in 1907, but rapidly regained by Michael's son Simon Marks. M&S remained under the tight control of the Marks family until the 1980s when, for the first time, a non-family member, Lord Rayner, was elected Chairman, crowning a 31-year career in the company.

Two individuals exerted a profound and lasting influence on M&S's vision: Simon Marks and Chaim Weizmann. Having studied the American chain stores in the 1920s, Simon Marks returned to England with the *super-store* concept: M&S would sell both food and clothes within the same store. In 1928, it developed its own private label, *St. Michael*, in memory of its founder.

Chaim Weizmann, a brilliant chemist at the beginning of the twentieth century, introduced M&S to the importance of *technology*. Close cooperation with suppliers and the use of the latest technology would be the foundation for achieving the highest quality in M&S products.

Marks & Spencer, in offering vertical brands like *St. Michael*, organized their processes industrially, much like a factory. M&S invested heavily in the technical part of the design: to this day, M&S buyers—who are also collection heads—continue to be accompanied by technicians in order to ensure the best available quality. As a result M&S technical skills have been consistently remarkable. Similarly, M&S has provided constant quality on every important garment dimension, including their quality/price ratio. (See Exhibit 1 for a quality comparison of M&S to other mass merchandisers.) The M&S approach to the English consumer was consistent in every way, up to their display of products. It proved the value of an industrial approach to textile apparel.

The strong focus on consistent quality of the *St. Michael* brand persists today, and has been central to their century-long strategy and value positioning. The 1998 Annual Report described M&S's approach to quality:

> "Clothing fit and comfort of the highest standard mean we are currently conducting the UK's most comprehensive survey of customer measurement. This, coupled with our wide choice of sizes and constant monitoring of customer needs, will ensure our jackets, trousers, skirts and even jumpers fit more comfortably than ever before."

Weizmann also introduced the managerial view that the business had to be run as a social service to both customers and employees. In 1933, M&S introduced a welfare department for its employees. Dentists and medical doctors would be available once a week, free of charge. A pension plan scheme was introduced as early as 1936. M&S gained significant press coverage through such social responsibility, generating a very positive image with the British public.

INSPECTION COPY
Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

In 1956, Lord Marks, Simon Marks' grandson, launched 'Operation Simplification,' which successfully eliminated the rise of overhead by instilling *sensible approximation*, *exception reporting* and *employee empowerment* in the firm's management practices.

In the early 1980s', M&S saw their first marked deterioration in sales and profits in their century-long history. In 1984, Lord Rayner launched a *quiet revolution* to modernize M&S.[iii] A year later, M&S launched its own credit card.[2] In 1986, it launched a state-of-the-art data recovery system in order to monitor sales and inventory. This move eliminated the manual audit of the 150,000 SKUs (Stock Keeping Units) carried out in over 50 warehouses. A reduction in the number of warehouses soon followed.

Internationalisation and Diversification

In 1972, M&S acquired 55% of a Canadian chain called *Peoples*. This was the beginning of their international expansion. In 1975, M&S opened stores in Paris (France) and Brussels (Belgium). In 1988, it acquired *Brooks Brothers*, an up-market American clothing company, as well as *Kings Supermarkets*, a US food chain. The first two Asian M&S stores opened in Hong-Kong the same year. In 1997, M&S won the Queen's Award for Export Achievement for the fifth time. By 1999, M&S was operating 322[iv] stores in 32 countries outside the UK (vs. 294 in the UK) through full ownership in France, Ireland, Belgium, Holland and Germany; partnerships in Spain and Hong-Kong; and franchises in Turkey, Portugal and Thailand.[v]

In addition to internationalisation, M&S began to diversify beyond food and apparel in 1986 with the introduction of furniture, supported by the successful launch of their *Home Furnishings* catalogue.

Another effort concerned a greater emphasis towards multi-channel development. The aim was to access consumers directly in their homes[vi] with direct mail (1996) and later, with web sites such as www.marks-and-spencer.com and www.marks-and-spencer.co.uk (1998). A partnership with British Telecom was being tested in 1999 and involved 80,000 British households who were given the opportunity to buy clothing directly on the net.

The M&S Value Chain

After a century of innovation, M&S had, by the end of the millennium, what could best be described as a 'traditional' textile apparel value chain. M&S's value chain for their two collections (Spring / Summer, and Fall / Winter), is depicted in Figure 1.[vii]

A **buying team** defined cloth specifications organized by category (children, women and men), one year before store delivery. This team is composed of[viii]:

- **stylists/design team** in the head-office, characterized by the *continuous improvement* of traditional models;

2 Surprisingly, M&S did not accept any other credit card in the UK until 1999.

INSPECTION COPY Not For Reproduction

INSPECTION COPY Not For Reproduction

INSPECTION COPY
Not For Reproduction

- **selectors/product developers,** who defined the product range, selected the material and style, followed trends of fashion through extensive travels and competitive store checks, and worked in close cooperation with manufacturers and stylists;

- **merchandisers,** who negotiated prices, estimated quantities, planned production, prepared the budget per category and reacted to sales so as to constantly optimise stock turns;

- **technologists** (200 in number), who determined quality standards, ran quality checks, supported product conception and suppliers' technological choices through advice and knowledge of the latest innovations.

An extensive **supplier** network, run by the buying team and generally heavily dependent on M&S, produced the merchandise. After Salsbury's efforts to rationalise the supplier base, the top 15 suppliers accounted for 80% of turnover. As much as 77% of turnover was sourced from the UK, permitting close proximity to the buying team for controls and communication. Long-term relationships (generally over 10 years) were favoured, and continuous production flows were common.

'State-of-the-art' **logistics** were utilised, coordinating several multi-user warehouses throughout the UK. These warehouses would be fed by suppliers, who themselves "pulled" items into their own warehouses, typically from overseas manufacturing facilities. In the UK, automated warehouses held an inventory equivalent to seven weeks of sales. [ix] If available, every order given before 10am would be expedited before 1pm. Logisticians ran the distribution and allocation to the stores, depending on availability and needs. Use of air cargo transportation was a common means of expediting the delivery of goods.

The **store** network was in majority owned by M&S, though individual stores acted with relative autonomy. EDI networks between shops, warehouses and head-office had been put in place, with 'virtual inventory' in the warehouses for each shop.[x]

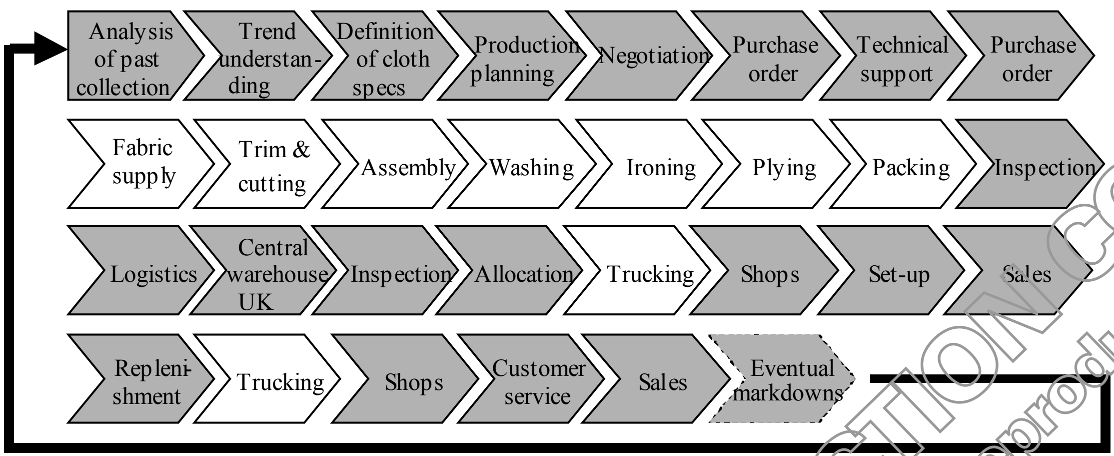


Figure 1: *M&S value chain*

Note: outsourced elements of the value chain are in white.

INSPECTION COPY
Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

Redefining M&S

Globalisation, the development of casual trends, and accelerating fashion life cycles were the major forces characterizing the recent evolution of the textile apparel industry. These developments proved particularly difficult for M&S. Replenishments were often described as being too slow due to poor production forecasts:[xi] the season's fashion hits were not correctly anticipated and initial production planning was often wrong.

For example, convinced that grey and black would be in fashion during the 1998/1999 season, M&S developed its entire Fall/Winter collection around those two colours. Due to the lead times in its traditional value chain, M&S had to make this decision fully one year in advance of the season. Regrettably, they lost their bet: both colours proved not to be in fashion that season, and *"When we realized that our choice was wrong, it was too late to order more colours"*, commented an M&S spokesman.

> "We were having a very good year. We were too confident and increased our order sizes. And ex post, we may say we ordered too much grey".

M&S had to offer considerable markdowns to get rid of a very large inventory of the wrong product. As was reported in Business Week:[xii]

> "M&S has slashed prices on $1 billion in goods in an "Autumn Values" campaign, the biggest off-season sale in its history."

M&S turnover in 1999[3] was similar to 1998 at £8.2 billion, but profits before tax, at £635 million, were down 45% from its stellar 1998 returns. This lacklustre performance was a major setback and heavily sanctioned by the market. Merrill Lynch suggested that heavy organization, limited flexibility and over-centralization were some of the fundamental reasons for M&S's poor performance. Its share price dropped by 50% over one year! (See Exhibits 2 and 3 for key financial indicators for M&S.)

Meanwhile, their UK market-share in clothing fell in 1999 to its lowest point ever with a 14.3% share, down from 15.1% the previous year and 17% two years earlier.[xiii] M&S seemed to be stuck with its permanent offering, where it continued to hold a 40% market share in women's lingerie and 25% in men's suits.[xiv] Its customer base was aging: M&S had only a 5% market share among 15-24 year-olds, but a 24% market share among those 65 and older in the UK.

By and large, M&S's foreign operations contributed few profits. Sales in Spain, Germany and France remained very difficult and the Asian crisis did not help results either. M&S proved unsuccessful in replicating its UK value chain in Canada. Among several factors, relationships with suppliers were different, and markdowns were common. These did not fit with M&S policy. After nearly 20 years of continuous losses, Canadian operations were finally closed in 1999.

3 Accounts close on March 31.

Copyright © 2002, INSEAD, France-Singapore.

INSPECTION COPY Not For Reproduction

INSPECTION COPY Not For Reproduction

In its 1999 Annual Report, M&S summarized its challenges as follows:

> "Our challenge is clear – to retain our position as the leading clothing retailer in the UK, where our share in adult clothing continues to grow, while supporting our expansion overseas.
> We constantly upgrade our product ranges through innovation and technical development. We now anticipate trends better and buy new fabrics and colours with greater confidence, so appealing to our broad customer base through a balance of styles – fashion and classic, formal and casual – across all our ranges.[xv]"

INSPECTION COPY Not For Reproduction

Inditex SA

Founded in 1963 in Spain by Amancio Ortega Gaono, Inditex was one of the successful players in casual fashion apparel at the end of the millennium. Its first factory workshop, Confecciones Goa, evolved in 1975 into the first Zara shop located strategically in the heart of La Coruña, Spain.[xvi] In the early 80s, the company expanded its shop network throughout Spain. It also began international expansion into countries bordering Spain (mainly Portugal). This continued in the mid-90s with stores opening in France, UK, Mexico, USA, Japan, Israel, Turkey, Greece, Cyprus, Norway and Argentina.

The business philosophy espoused terms such as *creativity*, *innovation*, *elegant design, fast market response*, special attention to the *interior design* of the shops, and a completely *anti-bureaucratic* business leadership.[xvii]

In the mid-80s, Inditex started to develop different brands and retail formats, each one adapted to a different consumer need and based on an extensive market segmentation analysis. For example, Massimo Duti targeted young businessmen, while Brettos targeted the trendy young suburban woman. (See Exhibit 4 for the different brands within Inditex's portfolio.) Inditex's success had been tremendous in Spain, with an 8% market value share by 1993.

By 2000, Inditex owned 1,080 stores, including more than 200 stores outside of Spain. Inditex's sales grew at about 20% per annum from 1990, reaching 2,615 million euros in 2000. Net profit margin was estimated at about 10%. In September 1999, Inditex Chairman Amancio Ortega Gaono made his first public announcement to the press, indicating that a part of Inditex might be floated in an IPO in the near future. (See Exhibit 5 for key financial indicators.)

Zara – Fashion at the Speed of Light

Inditex's most famous brand, Zara, is the Benetton of the 90's.[xviii] It competes with such brands as Gap, H&M, Next and Mango. Zara has grown significantly since 1980, representing 70% of Inditex's total turnover in 1999, and, remarkably, without any advertising. Zara relied instead on word-of-mouth, exceedingly well-located shop placements, and products

INSPECTION COPY Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

successfully targeted to the ever-changing tastes of the trendy young shoppers that were the core of its target market.

Consumers soon learned from experience that there would be something new in Zara shops every week and that 70% of the product range would change every two weeks. Zara's product quantities were purposely limited, both in shelf life and in quantity. The aim was to promote novelty, but also to avoid saturating the market with fashionable designs. Instead, successful designs were slightly altered either in colour, styling, material, or accessories. This way Zara always keeps up-to-date with ever-evolving fashion trends without appearing dated or targeted to 'the masses.'

Zara Value Chain[xix]

Essential to Zara's strategy is a vertically integrated value chain, which is described in Figure 2. A **raw materials team** imports silk and linen from the Inditex buying centre in Beijing.[xx] This team also books unspecified production capacity with suppliers in order to access flexibility at the last minute.[xxi] Internal **raw material finishing** capabilities in Barcelona allow Zara to make last minute choices.[xxii]

A dedicated team of 55-60[xxiii] **designers** prepares, at the beginning of each season, a portfolio of models that serve as platforms for the models that will eventually be launched.[xxiv] Twenty designers walk the streets and go to discos in order to get a 'feel' for the latest fashion trends.[xxv] The design team uses computer assisted design (CAD) tools and IT links to create 'prototypes' that are kept at headquarters in Galicia. Later in the season, having carefully observed the latest fashion trends, Zara designers make final adaptations to the models from the portfolio and create *5-8 new designs every day!* In e total, about 12,000 new products are designed every year.

Every new product design is tested among a certain number of **test shops**. Client reaction is measured within these shops. Specific software, based on mathematical algorithms, is applied to identify future 'hits' and which products to drop. Only identified winners are scheduled for mass-production at single runs of 100,000 to 350,000 units.[xxvi]

Zara's main industrial production area is located in Galicia, where products are cut, sewn, ironed, packed and ticketed within 3 to 15 days, with an average of 7 to 8 days.[xxvii] Within this industrial area, one finds:

- Zara's **central warehouse**: one of the largest (400,000 m^2) and most automated worldwide, where raw material, prototypes and FGI are stocked;[xxviii]
- Zara's own **cutting** facilities (25-30 SKUs cut per batch)[xxix]: 17 semi-specialized factories;[xxx]
- Zara's **internal logistics**: every two to three days small trucks deliver the garment pieces to the 5000-6000 **exclusive sewing assembly cooperatives** and collect them back when sewn;[xxxi]
- Zara's internal **washing**, **ironing**, **packaging** and **ticketing** capabilities.[xxxii]

INSPECTION COPY Not For Reproduction

INSPECTION COPY Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

Another integrated industrial area was built in 1998 in Mexico for the North and Central American market. It enabled Zara to avoid the heavy import tariffs to be applied to imports from Spain following the NAFTA treaty.

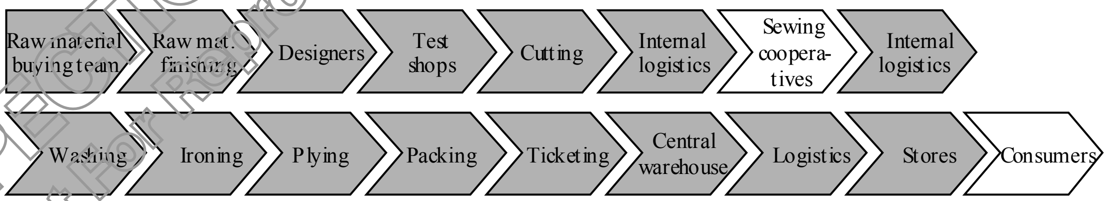


Figure 2*: Zara value chain.*

Note: outsourced elements of the value chain are in white

Zara's sales network consisted of 311 well-placed **stores**.[xxxiii] Only three stores were franchised, the others fully owned by Inditex.[xxxiv] Each site was carefully selected to be highly visible. Specific store designs were tested in a mock store on the Galicia site.[xxxv] Recommendations for window-dressing are sent to store managers from a centralized **merchandising department**. Store managers handle two deliveries per week in which they find 1/8 of the new products for the month. [xxxvi] This means that all SKUs in the store will typically be different from those present a month earlier. Store managers are an active part of the value chain. They compare their sales statistics with product availability in the central warehouse, and order quantities knowing that every design will quickly be discontinued.

Consumers get addicted to Zara's rapidly disappearing collections. They also learn when to expect new deliveries. Zara customers are confident to find fashion there. As one industry expert explained:

> "Customers are actually satisfied to see items out of stock as they are then confident that there is little chance that many other customers will wear the very same dress." [xxxvii]

Zara handles overall about 25,000 SKUs, with only three sizes and three colours for each model. The final design to sales cycle time for any particular item is about **22-30 days**:[xxxviii] *one day for final design, 3 to 8 days for manufacturing, one day for shipping, and 17-20 days for selling.*

The Zara value chain permits rapid reaction to fashion changes. Zara can copy a successful competitor model and get it on its shelves within seven days and all at low- to- middle-range prices. About 12 to 16 collections are launched every year: *Zara's objective is not that consumers buy a lot but that they buy often* and *will find something new every time they enter the store.*[xxxix]

INSPECTION COPY Not For Reproduction

INSPECTION COPY Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

The Challenge ahead for M&S

Criticisms levelled by financial analysts and customers against M&S's "traditional" business approach were increasing every day. A recent study in France nastily compared the shopping experience at M&S with the feeling one may have flying Aeroflot. The study went on to criticise M&S's approach to store display as outdated, as it was designed per category of cloth and not per style. In spite of Salasbury's attempt to rationalise the supply chain in mid-1999, inefficiencies in replenishment also seemed recurrent.

When he took over as Chairman and Chief Executive of M&S in January 2000, Luc Vandevelde promised to turn the company around within two years. However, profits continued to fall and by November 2000, Vandevelde admitted that while he was still sticking to his two-year deadline, the job appeared to be more difficult than he had initially anticipated.

Vandevelde 's task was clearly formidable. How was he going to make M&S successful against a growing variety of increasingly sophisticated competitors? What clear choices should be made? In particular, what principles should guide his efforts?

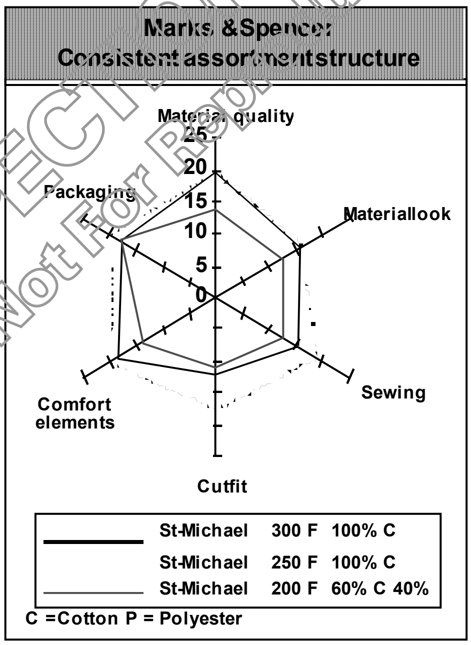
INSPECTION COPY
Not For Reproduction

INSPECTION COPY
Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

Exhibit 1

Quality spiders for M&S versus other mass merchandisers

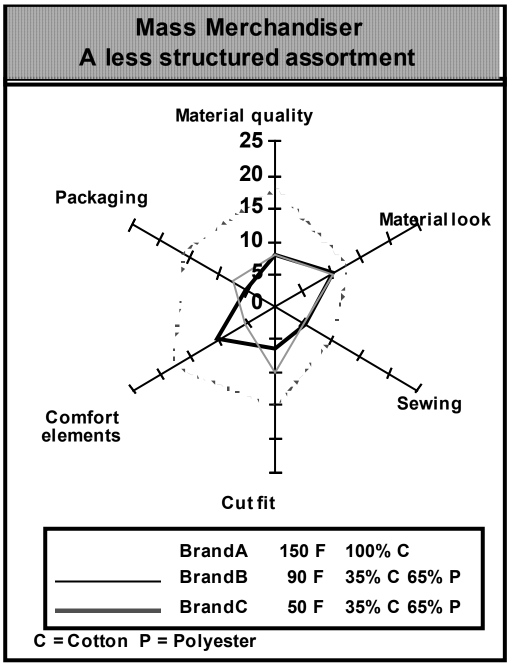


Source: The Boston Consulting Group – 1994 survey

This survey analyses shirts of M&S vs. those of a mass merchandiser on more than 10 criteria in every dimension (material quality, material look, stitching, cut, fit, comfort elements, and packaging).

Regarding M&S, there are two main results:

- The higher the price, the higher the quality in almost every dimension;
- Quality levels are very homogeneous in every dimension.



Source: The Boston Consulting Group – 1994 survey

This demonstrates an excellent and consistent level of quality control on M&S's side.

On the mass merchandiser's side, the results can be very different:

- Quality levels are not homogeneous;
- Higher prices do not systematically mean higher quality.

INSPECTION COPY Not For Reproduction

INSPECTION COPY Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

INSPECTION COPY Not For Reproduction

Exhibit 2

M&S Five-Year Group Financial Summary[xi]

Group Financial Record

FOR THE YEAR ENDED 31 MARCH

Profit and Loss account[(1) (2)]	2000 £'m 53 weeks	1999 £'m 52 weeks	1998 £'m 52 weeks	1997 £'m 52 weeks	1996 £'m 52 weeks
Turnover:					
General	4,629.6	4,765.1	4,811.4	4,601.7	4,181.4
Foods	3,201.3	3,110.3	3,157.1	3,024.1	2,871.3
Financial Services	364.6	348.6	274.8	216.1	181.0
Total turnover (excluding sales taxes)	8,195.5	8,224.0	8,243.3	7,841.9	7,233.7
Retailing - continuing	7,830.9	7,875.4	7,968.5	7,625.8	7,030.3
- discontinued	-	-	-	-	22.4
Financial Services	364.6	348.6	274.8	216.1	181.0
Operating profit					
United Kingdom	472.7	565.1	1,014.1	931.3	852.4
Europe (excluding UK) [(3)]	(14.8)	(90.8)	31.9	37.3	31.7
Americas[(4)]	16.4	15.7	16.7	20.7	13.9
Far East	(3.3)	(3.5)	18.3	32.7	26.0
Excess interest charged to cost of sales of Financial Services	-	25.5	22.7	-	-
Total opearting profit	471.0	512.0	1,103.7	1,022.0	924.0
Analysed as:					
Before exceptional operating (charges) / income	543.0	600.5	1,050.5	1,022.0	924.0
Exceptional operating (charges) / income	(72.0)	(88.5)	53.2	-	-
Retailing - continuing	355.1	375.8	991.6	946.3	867.2
- discontinued	-	-	-	-	(2.2)
Financial Services	115.9	110.7	89.4	75.7	59.0
Excess interest charged to cost of sales of Financial Services	-	25.5	22.7	-	-
Loss on disposal of discontinued operations	-	-	-	-	(25.0)
Loss on closure of Canadian operation	(45.4)	-	-	-	-
(Loss) / profit on disposal of property & other fixed assets	(22.3)	6.2	(2.8)	(1.8)	(4.2)
Net interest income	14.2	27.9	54.1	65.9	57.6
Profit before taxation	417.5	546.1	1,155.0	1,086.1	952.4
Taxation on ordinary activities	(158.2)	(176.1)	(338.7)	(346.1)	(312.0)
Minority interests	(0.6)	2.1	(0.4)	(1.3)	(1.2)
Profit attributable to shareholders	258.7	372.1	815.9	738.7	639.2
Dividends	(258.6)	(413.3)	(409.1)	(368.6)	(320.9)
Profit / (loss) for the year	0.1	(41.2)	406.8	370.1	318.3
Balance Sheet[(1)]					
Intangible fixed assets	1.3	-	-	-	-
Tangible fixed assets	4,242.1	4,387.5	3,964.8	3,412.0	3,246.4
Fixed asset investments	55.0	61.2	69.7	36.6	46.0
Current assets	3,717.1	3,355.9	3,401.5	3,203.0	2,874.3
Total assets	8,015.5	7,804.6	7,436.0	6,651.6	6,166.7
Creditors due within one year	(2,162.8)	(2,029.8)	(2,345.0)	(1,775.1)	(1,674.9)
Total assets less current liabilities	5,852.7	5,774.8	5,091.0	4,876.5	4,491.8
Creditors due after more than one year	(804.3)	(772.6)	(187.2)	(495.8)	(497.8)
Provisions for liabilities and charges	(126.6)	(105.0)	(31.0)	(31.8)	(35.0)
Net assets	4,921.8	4,897.2	4,872.8	4,348.9	3,959.0

(1) Restated for 1998 and prior years for the change in accounting policy relating to the depreciation of fit out.

(2) Restated for 1997 and prior years to include turnover and operating profit by desitnation, the results of the Captive insurance company within turnover and cost of sales and the results of the Treasury company within net interest income.

(3) 1999 reflects £ 64m provision for impairment of fixed assets

(4) Inclusive of discontiued operations.

INSPECTION COPY Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

INSPECTION COPY
Not For Reproduction

Exhibit 2 (Cont'd)

	2000 £'m 53 weeks	1999 £'m 52 weeks	1998 £'m 52 weeks	1997 £'m 52 weeks	1996 £'m 52 weeks
Cash flow (1) (2)					
Net cash inflow from operating activities	**641.5**	472.3	967.7	903.1	804.1
Returns on investments & servicing of finance	**15.2**	29.0	56.1	65.4	55.7
Taxation	**(145.7)**	(345.9)	(342.3)	(3l8.6)	(296.8)
Capital expenditure and financial investment	**(167.0)**	(628.1)	(788.3)	(419.1)	(325.1)
Acquisitions and disposals	**(21.1)**	1.0	2.6	(0.2)	(4.9)
Equity dividends paid	**(413.5)**	(412.6)	(325.8)	(305.6)	(271.3)
Cash outflow before management of liquid resources and financing	**(90.6)**	(884.3)	(430.0)	(75.0)	(38.3)
Management of liquid resouces	**(162.5)**	180.6	226.6	91.3	(127.7)
Financing	**260.3**	505.0	307.4	64.7	113.5
Increase / (decrease) in cash	**7.2**	(198.7)	104.0	81.0	(52.5)
Decrease in net funds defined by FRS1	69.8	862.3	380.8	35.5	4.3

Key performance measures(1)

Measure	Definition	2000	1999	1998	1997	1996
Gross margin(3) (4)	Gross Profit / Turnover	34.1%	33.4%	35.2%	34.9%	34.7%
Net margin(3) (4)	Operating Profit / Turnover	5.7%	5.9%	13.1%	13.0%	12.8%
Net margin excluding exceptional items(5)		6.6%	7.0%	12.5%	13.0%	12.8%
Profitability(3)	Profit before tax / Turnover	5.1%	6.6%	14.0%	13.8%	13.6%
Profitability excluding exceptional items(6)		6.8%	7.6%	13.4%	13.9%	13.6%
Earnings per share (Defined by FRS14)	Standard earnings(7) / Weighted average ordinary shares in issue	9.0p	13.0p	28.6p	26.1p	22.8p
Earnings per share adjusted for exceptional items		13.2p	15.6p	27.4p	26.2p	23.8p
Earnings per share (Defined by IMR)	Headline earnings(8) / Weighted average ordinary shares in issue	11.4p	15.0p	28.7p	26.2p	23.8p
Dividend per share		9.0p	14.4p	14.3p	13.0p	11.4p
Dividend cover	Profit attributable to shareholders / Dividends	1.0	0.9	2.0	2.0	1.9
Return on equity(3)	Profit after tax & minority interests / Average shareholders' funds	5.3%	7.6%	17.8%	17.9%	17.1%
Capital expenditure(1)		£450.6m	£683.1m	£750.2m	£431.6m	£309.0m

(1) Restated for 1998 & prior years for the change in accounting policy relating to the depreciation of fit out.

(2) Figures for 1996 have been restated in accordance with the revised versions of FRS1, 'Cash Flow Statements".

(3) Based on results reported as continuing operations.

(4) Based on segmental results.

(5) Figures for 2000 exclude exceptional operating charges of £72.0m in respect of UK & European restructuring costs. Figures for 1999 exclude exceptional operating charges of £88.5m in respect of impairment provision in Europe & the provision for UK restructuring costs (see note4A) 1998 excludes exceptional operating income of £53.2m in respect of VAT.

(6) Excludes operating exceptional items referred to in (5) above together with non-operating exceptional items.

(7) Standard earnings are defined as profit after tax and minority interests.

(8) Headline earnings are standard earnings adjusted for certain capital items.

INSPECTION COPY
Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

INSPECTION COPY
Not For Reproduction

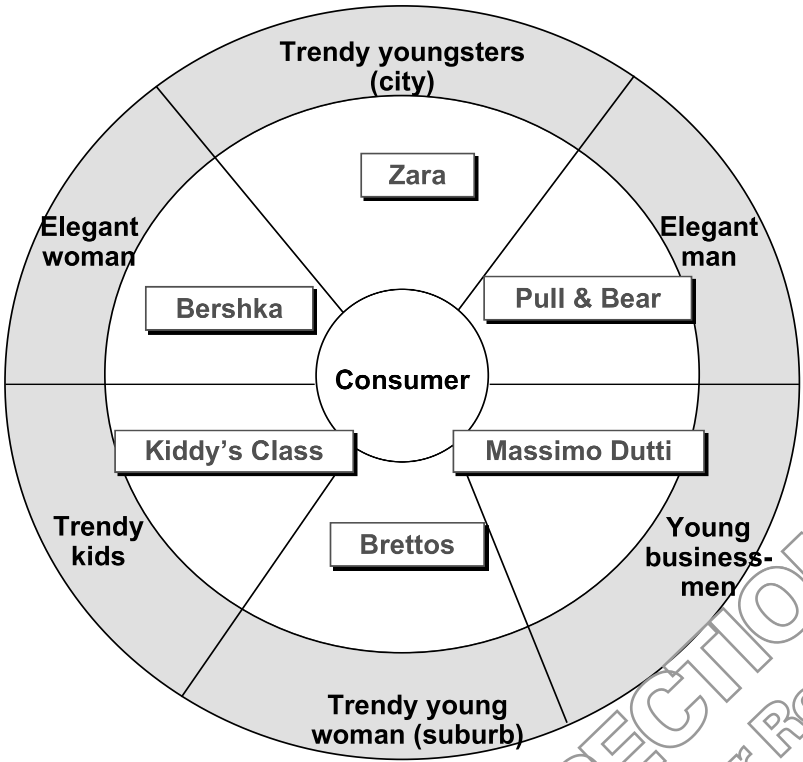
Exhibit 3
Movements in UK Retail Sales for Marks & Spencer (2000)[xli]

UK Retail sales (including VAT of £0.7m) for the 53 weeks comprise clothing, footwear and gifts £4.0bn (last year £4.2bn); home furnishings £0.3bn (last year £0.3bn) and foods £2.9bn (last year £2.8bn).
An analysis of the movements in UK Retail sales (including VAT) across the four reporting periods of the year is given below:

	FIRST QUARTER %	SECOND QUARTER %	15 WEEKS TO 8 JAN %	11 WEEKS TO 25 MARCH %	52 WEEKS TOTAL %
UK Retail sales growth					
Clothing, footwear & gifts	(9.8)	(10.3)	(6.7)	(3.6)	(7.8)
Home furnishings	(1.6)	(11.6)	6.0	11.7	1.0
Foods	(1.2)	0.4	3.2	1.8	1.2
Total	(6.1)	(6.2)	(2.8)	(0.5)	(4.0)

Source: Annual review and summary financial statement 2000.

Exhibit 4
Inditex Brand Portfolio



Source: The Boston Consulting Group.

INSPECTION COPY
Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

INSPECTION COPY
Not For Reproduction

Exhibit 5
Stores, Openings, and Consolidated Results for Inditex (1998-2000)

Number of stores in the Inditex group

	2000		**1999**		**1998**	
	Stores	*Openings*	*Stores*	*Openings*	*Stores*	*Openings*
Zara	449	54	395	40	355	35
Pull & Bear	229	26	203	5	198	25
Massimo Dutti	198	18	180	24	156	28
Bershka	104	35	69	30	39	39
Stradivarius	100	25	75	n/a	n/a	n/a
Total	1,080	158	922	99	748	127

Consolidated results for Inditex (million euros)

	2000	**1999**	**1998**
Revenues	2,615	2,035	1,615
Operating profit	380	296	242
Net profit	259	205	153

Source: "Inditex Plans Initial Offering" *The Wall Street Journal Europe*, March 13, 2001.

Exhibit 6
Sales Evolution in Retail Sector 1996-1999 (billion $)

	1996	**1997**	**1998**	**1999**	**Annual growth rate**
Benetton	1,292	1,637	1,725	1,727	10,2 %
H&M	1,398	1,730	2,165	2,679	24,2 %
GAP	5,284	6,507	9,054	11,635	30,1 %
Carrefour	20,731	22,653	24,061	32,801	19,2 %
Wal-Mart	104,859	117,958	137,634	165,013	20,8 %
M&S	10,211	11,108	11,676	11,649	4,5 %

Source: BCG Analysis based on Worldscope Global April 2001.

INSPECTION COPY
Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

[i] *Vogue Daily*, August 2000.
[ii] *Source*: LSA n°1632, May 27, 1999.
[iii] *Source*: Maggy Urry, *St. Michael's quiet revolution*, Financial Times, May 21, 1988.
[iv] *Source*: Deutsche Morgan Grenfell, *Marks & Spencer*, June 18, 1998.
[v] *Source*: Deutsche Morgan Grenfell, *Marks & Spencer*, June 18, 1998.
[vi] *Sources: Marks & Spencer va se lancer dans la VPC*, Journal du Textile, n° 1493, April 14th, 1997 ; Marks & Spencer Annual Report 1998.
[vii] Note: main sources when no specific reference are: Marks & Spencer Annual Reports; Harvard Business School; M&S web sites.
[viii] *Source*: LSA n° 1232, 1994 ; Figaro Economie, May 10, 1999.
[ix] *Source*: BCG press search, 1994.
[x] *Source*: 1990 figures, *County NatWest Woodmac*, "Marks & Spencer: Quality and Value", May 8th, 1990.
[xi] *Source*: LSA n°1632, May 27, 1999.
[xii] *Source*: Business Week, November 16, 1998.
[xiii] *Source*: ONS.
[xiv] *Source*: Figaro Economie, May 10, 1999.
[xv] *Source*: Marks & Spencer Annual Report 1998.
[xvi] *Source*: Inditex, *From La Coruña to Manhattan*, 1Q 1999.
[xvii] *Source*: Inditex, *From La Coruña to Manhattan*, 1Q 1999.
[xviii] *Source*: Business Week – 1996.
[xix] Note: main sources when no specific reference come from an extensive press search and BCG expertise.
[xx] *Source*: BCG press search, 1994.
[xxi] *Source*: Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxii] *Source*: Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxiii] *Source*: *Zara, la déferlante de la mode espagnole*, Enjeux, February 1996.
[xxiv] *Source*: Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxv] *Source*: Interview of Denis Cohen Tannoudji, INSEAD alumni, Manager at The Boston Consulting Group Paris, July 8, 1999.
[xxvi] *Source*: Interview of Denis Cohen Tannoudji, INSEAD alumni, Manager at The Boston Consulting Group Paris, July 8, 1999.
[xxvii] *Source*: *Zara poursuit une expansion rapide*, Journal du Textile, n° 1537, April 27th, 1998 – other sites in Tordera, Catalogne, Spain and in Mexico.
[xxviii] *Source*: *La France, tête de pont européenne pour Zara*, L.S.A., n° 1499, July 4th, 1996 – 300,000 m² warehouse in Sabon site.
[xxix] *Source*: BCG Press search 1994; Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxx] *Source*: *Zara poursuit une expansion rapide*, Journal du Textile, n° 1537, April 27th, 1998 – Galicia site in Sabon, near La Corogne.
[xxxi] *Source*: Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxxii] *Source*: BCG Press search 1994, Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxxiii] *Source*: Inditex, 1Q 1999.
[xxxiv] *Source*: Inditex 1998 consolidated financial statements and management report together with auditors' report.
[xxxv] *Source*: Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxxvi] *Source*: *La France, tête de pont européenne pour Zara*, L.S.A., n° 1499, July 4th, 1996.
[xxxvii] *Source*: Interview of Anthony Pralle, Senior Vice-President at The Boston Consulting Group Madrid, July 13, 1999.
[xxxviii] *Source*: *Zara, la déferlante de la mode espagnole*, Enjeux, February 1996.
[xxxix] *Source*: *Zara, la déferlante de la mode espagnole*, Enjeux, February 1996 – Interview of Stéphane Labelle, MD of Zara France.
[xl] M&S annual report and financial statements 2000.
[xli] *Ibid.*

INSPECTION COPY
Not For Reproduction
INSPECTION COPY
Not For Reproduction

Copyright © 2002, INSEAD, France-Singapore.

INSPECTION COPY
Not For Reproduction

Please note that INSEAD does not distribute its case studies directly.
INSEAD cases are distributed worldwide by three centres, the details of which are listed below:

The European Case Clearing House (ECCH)

The European Case Clearing House
Cranfield University
Wharley End
Bedford MK43 0JR
ENGLAND

Tel: 44 (0) 1234 750 903
Fax: 44 (0) 1234 751 125
E-mail: ECCH@cranfield.ac.uk

ECCH at Babson Ltd.
Babson College
Babson Park
Wellesley MA 02457
USA

Tel: 1 781 239 5884
Fax: 1 781 239 5885
E-mail: ECCHBabson@aol.com

Centrale des Cas et de Médias Pédagogiques*

CCMP
49 rue de Tocqueville
75017 Paris
FRANCE

Tel: 33 (0) 1 55 65 64 44
Fax: 33 (0) 1 40 54 06 93
E-mail: ccmp@ccip.fr
* A minimum order of 3 copies is required -
Credit cards are not accepted.

INSEAD

Boulevard de Constance, 77305 Fontainebleau Cedex, France
Telephone 33 (0)1 60 72 40 00 Fax 33 (0)1 60 74 55 00/01 www.insead.fr

Printed by INSEAD

INSPECTION COPY
Not For Reproduction