

COMPANY Case

Zara: The Technology Giant of the Fashion World

One global retailer is expanding at a dizzying pace. It's on track for what appears to be world domination of its industry. Having built its own state-of-the-art distribution network, the company is leaving the competition in the dust in terms of sales and profits, not to mention speed of inventory management and turnover. Wal-Mart you might think? Dell possibly? Although these two retail giants definitely fit the description, we're talking here about Zara, the flagship specialty chain of Spain-based clothing conglomerate, Inditex.

This dynamic retailer is known for selling stylish designs that resemble those of big-name fashion houses, but at moderate prices. "We sell the latest trends at low prices, but our clients value our design, quality, and constant innovation," a company spokesman said. "That gives us the advantage even in highly competitive, developed markets, including Britain." More interesting is the way that Zara achieves its mission.

FAST-FASHION—THE NEWEST WAVE

A handful of European specialty clothing retailers are taking the fashion world by storm with a business model that has come to be known as "fast-fashion." In short, these companies can recognize and respond to fashion trends very quickly, create products that mirror the trends, and get those products onto shelves much faster and more frequently than the industry norm. Fast-fashion retailers include Sweden's Hennes & Mauritz (H&M); Britain's Top Shop, Spain's Mango, and the Netherlands' Mexx. Although all of these companies are successfully employing the fast-fashion concept, Zara leads the pack on virtually every level.

For example, "fast" at Zara means that it can take a product from concept through design, manufacturing, and store-shelf placement in as little as two weeks, much quicker than any of its fast-fashion competitors. For more mainstream clothing chains, the process takes months.

This gives Zara the advantage of virtually copying fashions from the pages of *Vogue* and having them on the streets in dozens of countries before the next issue of the magazine even

hits the newsstands! When Spain's Crown Prince Felipe and Letizia Ortiz Rocasolano announced their engagement, the bride-to-be wore a stylish white trouser suit. This raised some eyebrows, given that it violated royal protocol. But European women loved it and within a few weeks, hundreds of them were wearing a nearly identical outfit they had purchased from Zara.

But Zara is more than just fast. It's also prolific. In a typical year, Zara launches about 11,000 new items. Compare that to the 2,000 to 4,000 items introduced by both H&M and Gap. In the fashion world, this difference is huge. Zara stores receive new merchandise two to three times each week, whereas most clothing retailers get large shipments on a seasonal basis, four to six times per year.

As part of its strategy to introduce more new items with greater frequency, Zara also produces items in smaller batches. Thus, it assumes less risk if an item doesn't sell well. But smaller batches also means exclusivity, a unique benefit from a mass-market retailer that draws young fashionistas through Zara's doors like a magnet. When items sell out, they are not restocked with another shipment. Instead, the next Zara shipment contains something new, something different. Popular items can appear and disappear within a week. Consumers know that if they like something, they have to buy it or miss out. Customers are enticed to check out store stock more often, leading to very high levels of repeat patronage. But it also means that Zara doesn't have to follow the industry pattern of marking products down as the season progresses. Thus, Zara reaps the benefit of prices that average much closer to the list price.

THE VERTICAL SECRET TO ZARA'S SUCCESS

Just how does Zara achieve such mind-blowing responsiveness? The answer lies in its distribution system. In 1975, Amancio Ortega opened the first Zara store in Spain's remote northwest town of La Coruña, home to Zara's headquarters. Having already worked in the textile industry for two decades, his experience led him to design a system in which he could control every aspect of the supply chain, from design and production to distribution and retailing. He knew, for example, that in the textile business, the biggest mark-ups were made by wholesalers and retailers. He was determined to maintain control over these activities.

Ortega's original philosophy forms the heart of Zara's unique, rapid-fire supply chain today. But it's Zara's high-tech information system that has taken vertical integration in the company to an unprecedented level. According to CEO Pablo Isla, "Our information system is absolutely avant-garde. It's what links the shop to our designers and our distribution system."

Zara's vertically integrated system makes the starting point of a product concept hard to nail down. At Zara's headquarters, creative teams of more than 300 professionals carry out the design process. But they act on information fed to them from the stores. This goes far beyond typical point-of-sales data. Store managers act as trend spotters. Every day they report hot fads to headquarters, enabling popular lines to be tweaked and slow movers to be whisked away within hours. If customers are asking for a rounded neck on a vest rather than a V neck, such an item can be in stores in seven to ten days. This process would take traditional retailers months.

Managers also consult a personal digital assistant every evening to check what new designs are available and place their orders according to what they think will sell best to their customers. Thus, store managers help shape designs by ensuring that the creative teams have real-time information based on the observed tastes of actual consumers. Mr. Ortega refers to this as the democratization of fashion.

When it comes to sourcing, Zara's supply chain is unique as well. Current conventional wisdom calls for manufacturers in all industries to outsource their goods globally to the cheapest provider. Thus, most of Zara's competitors contract manufacturing out to low-wage countries, notably Asia. But Zara makes 40 percent of its own fabrics and produces more than half of its own clothes, rather than relying on a hodgepodge of slow-moving suppliers. Even things that are farmed out are done locally in order to maximize time efficiency. Nearly all Zara clothes for its stores worldwide are produced in its remote northeast corner of Spain.

As it completes designs, Zara cuts fabric in-house. It then sends the designs to one of several hundred local co-operatives for sewing, minimizing the time for raw material distribution. When items return to Zara's facilities, they are ironed by an assembly line of workers who specialize in a specific task (lapels, shoulders, and so on). Clothing items are wrapped in plastic and transported on conveyor belts to a group of giant warehouses.

Zara's warehouses are a vision of modern automation as swift and efficient as any automotive or consumer electronics plant. Human labor is a rare sight in these cavernous buildings. Customized machines patterned after the equipment used by overnight parcel services process up to 80,000 items an hour. The computerized system sorts, packs, labels, and allocates clothing items to every one of Zara's 1,495 stores. For stores within a 24-hour drive, Zara delivers goods by truck, whereas it ships merchandise via cargo jet to stores farther away.

DOMESTIC MANUFACTURING PAYS OFF

The same philosophy that has produced such good results for Zara has led parent company Inditex to diversify. Its other chains now include underwear retailer Oysho, teen-oriented Bershka and Stradivarius, children's Kiddy's Class, menswear Massimo Dutti, and casual and sportswear chain Pull & Bear. Recently, Inditex opened its first nonclothing chain, Zara Home. Each chain operates under the same style of vertical integration perfected at Zara.

Making speed the main goal of its supply chain has really paid off for Inditex. In only three years, its sales and profits more than doubled. Last year, revenues increased over 15 percent over the previous year to \$14.5 billion. Not bad considering retail revenue growth worldwide averages single digits, and many major

retailers were feeling the effects of slowing economies worldwide. Perhaps more importantly, Inditex's total profits grew by 25 percent last year to \$1.8 billion. Most of this performance was driven by Zara, now ranked number 64 on Interbrand's list of top 100 most valuable worldwide brands.

Although Inditex has grown rapidly, it wants more. Last year it opened 560 new stores worldwide (most of those were Zara stores) and plans to do the same this year. That's even considering an entry into the fast-growing Indian market. Global retailers are pushing into India in droves in response to India's thirst for premium brands. Zara can really capitalize on this trend. With more than one ribbon-cutting ceremony per day, Inditex could increase its number of stores from the current 3,890 to more than 5,000 stores in more than 70 countries by the end of this decade.

European fast-fashion retailers have thus far expanded cautiously in the United States (Zara has only 32 stores stateside). But the threat has U.S. clothing retailers rethinking the models they have relied on for years. According to one analyst, the industry may soon experience a reversal from outsourcing to China to "Made in the USA":

U.S. retailers are finally looking at lost sales as lost revenue. They know that in order to capture maximum sales they need to turn their inventory much quicker. The disadvantage of importing from China is that it requires a longer lead time of between three to six months from the time an order is placed to when the inventory is stocked in stores. By then the trends may have changed and you're stuck with all the unsold inventory. If retailers want to refresh their merchandise quicker, they will have to consider sourcing at least some of the merchandise locally.

So being the fastest of the fast-fashion retailers has not only paid off for Zara, the model has reconfigured the fashion landscape everywhere. Zara has blazed a trail for cheaper and cheaper fashion-led mass-retailers, has put the squeeze on mid-priced fashion, and has forced luxury brands to scramble to find ways to set themselves apart from Zara's look-alike designs. Leadership certainly has its perks.

Questions for Discussion

1. As completely as possible, sketch the supply chain for Zara from raw materials to consumer purchase.
2. Discuss the concepts of horizontal and vertical conflict as they relate to Zara.
3. Which type of vertical marketing system does Zara employ? List all the benefits that Zara receives by having adopted this system.
4. Does Zara experience disadvantages from its "fast-fashion" distribution system? Are these disadvantages offset by the advantages?
5. How does Zara add value for the customer through major logistics functions?

Sources: James Hall, "Zara Helps Fashion Profit for Inditex," *Daily Telegraph*, April 1, 2008, p. 12; Christopher Bjork, "New Stores Boost Inditex's Results," *Wall Street Journal*, June 12, 2008, p. B4; "The Future of Fast-Fashion," *The Economist*, June 18, 2005, accessed online at www.economist.com; John Tagliabue, "A Rival to Gap that Operates Like Dell," *New York Times*, May 30, 2003, p. W1; Elizabeth Nash, "Dressed For Success," *Independent*, March 31, 2006, p. 22; Sarah Mower, "The Zara Phenomenon," *Evening Standard*, January 13, 2006, p. 30; also see www.inditex.com, accessed November 2008.