

ZARA AND INDITEX: USING INFORMATION TECHNOLOGY FOR COMPETITIVE ADVANTAGE

The Speed Merchants

It's half an hour before opening at Zara's flagship apparel store in downtown Madrid, and Esther Fernandez Gomez, clad in a black stretch dress with one bare shoulder, is taking stock. She scans the chrome racks holding the latest spring fashions, absorbing it all. Plenty of beige and white, but black, navy blue, and garnet are in short supply. Leather items—particularly the short skirts—are selling briskly; so are the tailored jeans, the black sequined shirts, and the red and blue gabardine blazers.

Fernandez spots a black dress hanging on a rack by itself. She grabs it and calculates aloud: On Monday she received four, and now just two days later, only one remains. "I've to make a bet on what we are going to sell next week," she says. "I'll probably order six to sell between Monday and Thursday." Thus decided, she pulls out a customized Cassiopeia Pocket PC and, with stylus in hand, taps in an order that's beamed over the Internet to Zara headquarters in the northwestern Spanish town of La Coruna.

There, in a bright and vast white room, some 200 designers and product managers are deciding what to create. Every day they gather suggestions from Fernandez and 518 other store managers worldwide—not just specific orders but ideas for cuts, fabrics, or even, say, a new line of men's knit vests. (Fernandez, for example, plans to pitch a proposal for making the hot-selling black dress in red and beige, perhaps with an asymmetrical cut exposing the left shoulder.)

After weighing the store managers' ideas, the team in La Coruna decides what to make. Designers draw up the latest ideas on their computers and send them over Zara's intranet to a smattering of its nearby factories. Within days, the cutting, dyeing, stitching, and pressing begin. And in just three weeks, the clothes will hang in over 500 Zara stores from Barcelona to Berlin to Beirut. Zara isn't just a bit faster than rivals such as Gap, whose lead time is nine months. It's 12 times faster.

The Networked Mega-Retailer

Little known in the United States, where it has just eight stores, Zara (www.zara.com) can lay a strong claim to owning the most impressive manufacturing and distribution process in the apparel industry. Although Zara is often called Europe's equivalent of Gap, the chain defies direct comparisons to American retailers. The bulk of its fashions, which appeal to dressier European tastes, are more Banana Republic than Gap. Its prices, however, are more Old Navy.

But what sets Zara apart is a network that ties the store floors to the design shops and in-house factories in the closest thing to real time that exists in retail. Its amazingly flexible factories can replace or redesign the shape of a pair of jeans almost as fast as a teenager can change her mind.

While recession and some merchandising missteps have forced Gap and comparable European stores like Sweden's H&M to retrench, Zara continues to expand. Profits at Zara's corporate parent, Inditex (www.inditex.com), more than tripled between 1995 and 2000 and climbed 31 percent in 2001—a year when many clothing chains saw sales and profits collapse. Zara's impact isn't confined to retail, however. For any company in any industry that cares about time to market, customer focus, and streamlining business processes, Zara is suddenly an organization to watch. "No one can replicate their model," says Elise Horowitz, an analyst with Lehman Bros. in London.

The Zara Business Model

The Zara model may be unique, but at its heart is a perfectly simple principle: In fashion, nothing is as important as time to market—not advertising (which Zara does just twice a year in newspapers), not sales promotions (which Zara does only sparingly), not even labor costs. For decades, apparel companies have farmed out their manufacturing to Third World countries in pursuit of lower costs. Zara decided against doing so. In the end, the company reasoned, the ability to respond quickly to shifts in consumer tastes would create far greater efficiencies than outsourcing to Third World sweatshops. "The fashion world is in constant flux and is driven not by supply but by customer demand," says Jose Maria Castellano, CEO of Inditex. "We need to give consumers what they want, and if I go to South America or Asia to make clothes, I simply can't move fast enough."

Once the company committed to having the world's most responsive supply chain, the pieces of its operating model fell logically into place. About half the items Zara sells are made in its own factories, rather than by the contract manufacturers who make virtually all other retailers' store-label apparel. Zara has a twice-a-week delivery schedule that not only restocks old styles but brings in entirely new designs; rival chains tend to receive new designs only once or twice a season. To make this possible, Zara's prolific design department cranks out more than 10,000 fresh items each year, far more than the competition does. "It's like you walk into a new store every two weeks," marvels Tracy Mullin, president and CEO of the National Retail Federation.

The advantages of their world-beating time to market, according to Zara, more than offset manufacturing costs that run 15 to 20 percent higher than those of its rivals. Responding so quickly to shifts in customer tastes means, for one thing, that Zara almost never needs to have across-the-board inventory write-offs to correct merchandising blunders. And the company maintains steady profit margins of 10 percent—in line with the best in the industry.

Since each store's merchandise changes so frequently, loyal customers come back often, without prodding, just to see what's new. The most important benefit of Zara's nimbleness, of course, is that customers are more likely to find stuff they want to buy on Zara's shelves. "They have clothes that are very hip, and the prices are great," gushes Barbara Santos, a 19-year-old student from Madrid, who admits to shopping at Zara about twice a month. On this sunny weekday afternoon, Santos snags a new winter coat for 48 euros (\$42), a skirt for 16 euros (\$14), and a leather change purse for 9.5 euros (\$8.25). (Zara varies its prices from country to country using a formula that takes into account distribution costs and economic conditions.) "And if you can't find something in this Zara, you walk down the street to another one, and they'll have it."

How Zara Has Grown

The first Zara opened in La Coruna in 1975, the brainchild of a railroad worker's son named Amancio Ortega. Ortega got his start in the apparel industry running a gown and lingerie business out of his family's kitchen in 1963, but from the beginning, he understood the importance of building tight bonds with his customers. "The clothes he made were being sold through wholesalers who were simply not offering what customers wanted," Castellano says. So Ortega set out to build a

company that would take control of every aspect of its business. The rest is one of the world's great retailing success stories.

Today the reclusive 66-year-old Ortega, who has never granted an interview and is rarely seen in public, is Spain's richest man, the world's richest fashion executive, ahead of Bernard Arnault of luxury goods empire LVMH and the Fisher family, which funded Gap. Inditex, the 3.25 billion euro (\$2.8 billion) retail conglomerate that grew out of Zara, now includes five smaller chains: Bershka, Massimo Dutti, Pull & Bear, and Stradivarius, all of which carry styles ranging from upscale men's clothes to inexpensive teen fashions, and the recently launched Oysho, which sells lingerie. All told, Inditex has 1,315 stores in 40 countries.

Zara's 519 stores account for more than 75 percent of total sales. Although it has a sizable presence in the Americas and the Middle East, Zara is primarily European. And the company's executives still see plenty of room for expansion there. Even in Spain, Zara has only a 5 percent market share, compared with the 10 percent that H&M and Marks & Spencer have on their respective home turfs in Sweden and the United Kingdom. And in three of Europe's four biggest markets—Germany, Italy, and Great Britain—Zara is just getting started.

One of Zara's first international forays was to the United States, with the opening of a store in New York in 1989. Since then, the retailer's U.S. presence has grown slowly, with six stores in the New York area, two in Miami, and one in San Juan, Puerto Rico. "We get asked a lot what will happen with the U.S.," says Borja de la Cierva Alvarez de Sotomayer, Inditex's chief financial officer. "We are very happy with having a foothold there. It gives us visibility. We get to know the market. We get to build teams, and we make money." A full-scale onslaught in the United States would almost certainly require Zara to duplicate its manufacturing and distribution infrastructure nearby, perhaps in Mexico. Such an effort, de la Cierva says, just doesn't make sense when the company is still expanding in Germany and Italy. "For us," he says, "it is not a priority."

Zara's Logistics

To see what *is* Zara's priority, a good place to go is the imposing concrete and cinderblock fortress of a warehouse in La Coruna, across a two-lane highway from Inditex's headquarters. And a good person to talk to is Lorena Alba, Inditex's director of logistics, an intense woman with a rapid-fire delivery who made a model of efficiency out of the four-story, 5-million-square-foot building. (That's about nine times the size of Amazon.com's warehouse in Fernley, Nevada, or about 90 football fields.) See Figure A.6.

For Alba, the warehouse is not so much a place to store clothes as a place to move them. The cavernous building is connected to 14 Zara factories through a maze of tunnels, each equipped with a rail that hangs from its ceiling. Along the rails, cables carry merchandise on a system not unlike a ski gondola. At the factories, bunches of clothes on hangers or in suspended racks—10 pants here, a dozen jackets there—are latched onto the cables and whisked into the warehouse.

Each bundle is supported by a metal bar with a series of tabs that spell out a mechanical code—a sort of "address" that indicates where exactly in the warehouse the bundle must end up. The merchandise is selected, sorted, rerouted, and resorted—some of it automatically, some of it with the help of warehouse workers—until it gets to an area that Alba calls the "lungs" of the distribution center. Here every Zara store has its own staging area. It receives clothes on hangers from the upper two floors, folded items and an array of accessories from the lower two. As soon as a store's order is complete, it is carted directly to a loading dock. There it is packed along with other stores' shipments, in order of delivery, onto a truck for each European destination. (Shipments bound for places outside Europe are sent by plane, and the clothes go through a further packing stage.)

"The vast majority of the items are in here only a few hours," Alba says. To keep to that pressing schedule, Alba and her team of a dozen logistics specialists

FIGURE A.6

Lorena Alba is director of logistics for Inditex, the parent company of Zara.



Source: Dan Burn-Forti.

constantly tweak everything from the sequence and the size of deliveries to truck routes and rail configurations. In late January, for example, Alba was forced to revamp the entire distribution schedule. As the number of stores grew, shipping times had been lengthening—an unacceptable situation in a schedule that could be brought to halt by delays of only a few minutes. A truck would arrive in a city after a store opened and the staff would be too busy with customers to take the delivery. Or worse, a truck would arrive after the early morning and not be allowed into the city's commercial downtown to unload—stalling the delivery until the next morning.

Now, Alba schedules deliveries by time zones. In the early morning, while European store managers are still taking stock, Alba receives, packs, and ships orders to the Americas or Asia. In the afternoon, it's Europe's turn. "We are always fine-tuning things, always with the same objectives: flexibility and speed," Alba says. And growth. The company is building an entire new complex in Zaragoza, about 150 miles northeast of Madrid that should double its capacity.

The Secret of Their Success

Back at the flagship store on Gran Via in Madrid, the doors have opened and Fernandez is mingling with customers, asking what they like and don't like and, as always, making mental notes. She keeps an eye on her assistants, who walk the men's, women's, and kids' sections of the store, straightening a shirt here and a pantsuit there, tapping orders into their Cassiopeias.

Fernandez has her eye out for women's clothes that aren't selling well. When she finds an item that's not moving, she puts on her own hard sell—a trick she's learned in her 14 years with Zara. "I wear it," she says, "and everyone asks for it." Besides, as all of Fernandez's customers know, in two weeks there will be a whole new supply of fashions on Zara's shelves. Odds are that you won't have to wait long before you find something to your liking. No store on earth works faster to make that happen.