

Spanish exception in overheated fashion industry

Inditex: reaching the top worldwide in 37 years

The most important retail fashion company in the world is of Spanish origin. Inditex is the listed owner of the famous fashion brands Zara, Massimo Dutti, Pull&Bear, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. Those are the brands which have determined the goods on offer in the international shopping streets and shopping centres in the last decade. Inditex's success is unparalleled. While the mother-country Spain balances on the verge of bankruptcy, the Inditex share has exploded on the IBEX Spanish stock exchange. With more than 5,500 shops in 86 countries, Inditex can measure itself against all major international retail competitors.

Ruud de Wit

When I lived in Madrid in 1989 – and later in Barcelona – I fell for the fashion brand called Massimo Dutti, which was a new Spanish chain store at that time. For many years I stuck to this brand. A few years later I discovered that Massimo Dutti was a 'brother company' of Zara, another fashion chain store growing in popularity, geared especially for young women. An understandable misunderstanding, because Massimo Dutti – together with the Stradivarius brandname – is also Inditex's only fashion brand that is not self-established. The brandname was taken over in 1991. Notwithstanding the affordable quality of the fashion being offered by Massimo Dutti, what also struck me was the real estate aspect: the shops were situated along or at the A1 locations, the high street retail, and they were characterized by absolutely beautiful, identical shop fronts and luxurious furnishings. A detail which also more or less became the appearance trademark of all the other brands of Massimo Dutti: large, beautifully furnished shops along the top A1 locations.

Ortega

Inditex's success is unparalleled. Since the time that founder Amancio Ortega opened the first Zara shop in 1975 in the Galician capital of La Coruña (Galicia is a region in the northwest of Spain), Inditex has developed into the largest fashion group in the world. The company, which was floated on the stock exchange in 2001, owns 5,618 shops in 84 countries with a net turnover for 2011 of € 13.793 billion, and it employs more than 110,000 staff (figures as at September 2012). In 2012 alone, the number of shops worldwide grew by another 90 and two more countries were added to the portfolio. The big man behind Inditex is Amancio Ortega, who, according to Bloomberg, is one of the three wealthiest people in the world fol-

lowing Bill Gates and Carlos Slim. Ortega has always been and still is the most important shareholder of Inditex. Even during this latest economic crisis, which severely affects Spain, the value of the Inditex share has tripled and the business now has the highest market value on the Spanish stock exchange. For the initial shareholders Inditex has proved to be a gold mine. When Inditex was floated on the stock exchange in 2001, the share price was € 14.70. At the beginning of September this year the share attained its highest market value ever, at more than €95. The fact that Inditex is doing so well is quite remarkable, because the mother country Spain is on the brink of a European bankruptcy and the retail sector hasn't been able to cheer for a number of years anymore.

Success formula

According to Inditex the key word for its success is 'the internal organisation'. Inditex describes it as: 'The Inditex business model is characterised by a high degree of vertical integration. It is involved in all

stages of the fashion process: design, manufacture, logistics and distribution to its own managed stores. It has a flexible structure and a strong customer-oriented focus across all of its business areas. The key element for the company is the store, a carefully designed space - designed to make customers feel comfortable as they experience our collections. It is also where we obtain useful information for adapting our collections to our customers' tastes. The key to this model is the ability to adapt our merchandise to customer tastes in the shortest amount of time possible. For Inditex, speed is the No. 1 priority, more so than the production costs. Vertical integration enables us to shorten turnaround times and achieve greater flexibility, keeping merchandise stock and fashion risk at a minimum'.

For the supply of the merchandise to the shops Inditex uses self-designed software, which makes it possible to process orders quickly. Order destined for Europe reach their destination within 24 hours and delivery to the United States and Asia is within

48 hours. New articles are supplied to every Inditex chain store twice a week: 'The merchandise for each season – over 30,000 items last year – are developed in their entirety by creative teams at each concept. More than 300 designers – 200 of them at Zara alone – draw their main inspiration from both prevailing trends in the fashion industry and customers themselves, through feedback received at stores.'

Ortega

To this day Amancio Ortega Gaona is still the face of Inditex, although the company has been led by Pablo Isla since 2005. He opened the first Zara shop in La Coruña in 1975. The success of the Zara store very soon led to new Zara shops in other cities, particularly in the northwest of Spain. This was followed by larger cities in other parts of Spain: Madrid, Valladolid, Zaragoza, Seville and Barcelona. A decade later (in 1985) Ortega added Zara to a new company, which Ortega called Industria de Diseño Textil (Inditex), and from that moment onwards, things really went prosperously well with the Zara stores. 1988 saw the first Zara store open outside of Spain, in Oporto (Portugal) and a year later the New York branch followed suit and another year later Paris too. But Ortega realised that, with Zara – which was geared towards young women at that time – he could only serve a portion of the fashion spectrum and that's why, in 1991, he bought a 65 percent share in another popular brand in Spain called Massimo Dutti, the fashion brand intended exclusively for men at that time. In that year the Pull&Bear brand was also created in his own design studios, a brandname that in the first instance, was mainly geared for the young men segment. In the years thereafter this was followed by Bershka (initially meant for young girls), the take-over of Stradivarius (in 1999) and the chain of the Oysho lingerie shops in 2001. The final elements for the range on offer are Zara Home, geared for interiors, and Uterqüe that mainly has accessories. An essential differentiation between Inditex and its most important competitors is that the company has continued to manufacture in Europe. Most of the articles are therefore not made in China, India or elsewhere in Asia, but in Spain itself, Portugal and Turkey, often in its own factories. Staying entirely in line with the strategy of the business, they want to keep the entire production process 'in-house' and in so doing they can operate faster than their biggest competitors.

Real estate concept

Inditex is a textile enterprise which is not geared for buying real estate. The company opts for long-term relationships with real estate companies. Those are developers (like Multi Development), but mainly the owners of real estate such as the important real estate funds (like Unibail-Rodamco, Corio and Redevco). Hence the company wants, where possible, to locate its brands in the same real estate projects, preferably next to one another. We

also see that at new shopping centres and retail projects, where Inditex has shown an interest.

However, one of the latest gems in the Inditex crown is the new flagship store on Fifth Avenue in New York (no. 666), which has been bought by Inditex for an amount of € 247 million. Real estate experts think that Inditex will possibly make this kind of acquisition more often. In addition, the company also owns its own logistics centres and industrial buildings.

It's also remarkable how Inditex launches its brands in new markets: 'The usual way of entering a new market is to start with a small number of stores, which test the waters in each country before attaining a critical mass of customers. The new concepts added to the group since 1991 share the same international approach as Zara – in fact, it is one of their fundamental characteristics. As a result, all brands have expanded simultaneously in Spain and abroad. In most cases, Zara was used as the initial concept to disembark in new countries, gaining experience that facilitates the subsequent rollout of the other concepts. This accumulated experience has also enabled the accelerated international expansion of the newer concepts'.

There's also another matter in which Inditex seems to stand out when

The world's largest fashion group

compared to its most important competitors. And that is because of its Corporate Responsibility policy: 'Inditex views social and environmental variables as a strategic vector for its management system. Sustainable growth, which customers and society in general increasingly demand, is a value we at the company share and apply to our supplier relationships. All of Inditex's actions in the field of corporate responsibility are audited by external agents in order to provide greater objectivity.'

There seems to be no end to Inditex's success. It's precisely because they opt for globalization and a clear online strategy, that Inditex is less sensitive to the consequences of an economic crisis. It's also the attractive mix of the products, which vary from cheap to moderately priced goods, which strengthens its relative insensitivity to the economic decline. And furthermore, the vision and involvement of the founder of the business, Amancio Ortega for the present, remains crucial. ▀

Source:

- El Pais, 'La empresa que sonríe a la crisis', dated 12-08-2012

- www.inditex.com/en



The Inditex shops are situated along or at A1 locations and are characterized by their beautiful, almost identical shop fronts and similar luxurious furnishings. PHOTO ZARA UTRECHT, OWNER REDEVCO.