

ZARA AND ITS FAMILY¹

Flogging fashion is like selling fish. Fresh fish, like a freshly cut jacket in the latest color, sells quickly and at a high price. Yesterday's catch must be discounted and may not sell at all.

Amancio Ortega, Founder of Grupo Inditex.

In 2015 Inditex was among the highest growing firms worldwide². According to incumbent chairman Pablo Isla, its international presence and business model were key to the firm's sustained growth in sales. And the ceiling, he said, was still far:

"We see great growth potential in our commercial formats in different markets. Moreover, the potential development of online sales is yet to be assessed.

We will continue to restructure our stores, both blending in the new image, and having bigger stores absorb smaller ones; however, the key factor in our business is to maintain the gist of what brought us all the way here: we need to keep a fast y flexible connection between manufacturing and demand".

Among the main challenges Inditex faced for the following years was the design of a sustainability model for the firm. The Supply Chain needed to develop towards some aspects whose specific weight grew each day: a code of ethics, the environment, and occupational health and safety issues. All this materialized in "Right to Wear" a strategic plan for the development of a sustainable supply chain 2015-2018.

¹ This case has been elaborated by the Division of Research of Instituto Internacional San Telmo, Spain. Developed by professor Enrique Garrido Martínez of Instituto Internacional San Telmo, with the cooperation of Ms M^a Isabel Lora Martín, research assistant, for class purposes only, and not to illustrate any judgement on the adequate or inadequate management of a specific situation.

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² Deloitte's *Global Powers of Retailing* Report gathers data on the 250 largest retailers worldwide, whose sales are over \$3.800 million. In whole, they made \$ 4,35 billion, reaching a threshold growth of 4,1%. By and large, numbers reflect retailer sales only.

BACKGROUND

The son of a railway worker from Valladolid, Amancio Ortega Gaona³ was only 13 years of age when he began to work as a delivery boy for a shirt maker called Gala, one of the best known businesses in La Coruña (Northwest Spain). Shortly after that, he was hired by La Maja, a haberdasher. It did not take him long to venture into opening his own business, which he called Confecciones GOA, where he manufactured padded dressing-gowns for wholesalers. Very soon he was well known across Galicia. At the beginning of the seventies he had five hundred employees.

In 1975, a German client cancelled a significant order putting the business in serious difficulties. Amancio decided to go all out, meeting the problem head on, and opening his first **ZARA** store in La Coruña, as an outlet for overproduction, cancellations, and returned orders.

Soon enough Amancio realized that trying to sell products against the customer's natural buying trends resulted in high inventory levels, which forced him to lower prices considerably, sometimes below manufacturing cost. This lesson transformed his approach to the business. He shifted from "*manufacturing to sell*" to "*manufacturing what sells*". This had been a guiding tenet in the development of the firm since then; as the founder used to say: "For us, it is critical to have a hand in the factory and an eye in the store at the same time".

Inditex was incorporated in 1985. Its only brand at the time (ZARA) grew very quickly across Spain. At the end of the decade, stores were opened in Porto (1988), New York (1989) and Paris (1990), all in privileged locations. In 1989 Tempe was incorporated for the design, manufacture and distribution of footwear. The first children's footwear collection arrived in Zara stores in 1990.

Starting in 1991, there was an intense diversification process, along with a strong growth. New brands were marketed and aimed at different client segments. These had their own management within the group, but always followed ZARA's operating model. In 1991 **Pull & Bear** was created, and the firm bought 65% of **Massimo Dutti**, an acquisition that would be completed in 1995. That same year the first **Kiddy's Class** store (children's wear) was opened.

A few years later, in 1998, **Bershka** started operating, and the following year **Stradivarius** was acquired. **Lefties**⁴ followed, as an integral part of Inditex, to serve as an outlet for Zara, although shortly after the acquisition, as much as 70% of what it sold was specifically manufactured for the brand's collections. Later, in 2001, the lingerie chain **Oysho** was launched.

³ Busdongo, Leon, 28th of March 1936.

⁴ Lefties was never considered a brand by itself, but an integral part of Zara.

Inditex became listed in the Madrid stock exchange on the 23rd of May 2001; two months later, the group was part of the Ibex 35⁵. It opened at 14.7 €, scoring an increase of 22.45% that very same day. Appendix 1 shows the evolution of the quote.

Since the beginning, the group had a distribution center in Arteixo, La Coruña. However, expansion continued on that front too, with the opening of another one in Zaragoza in 2003. That same year, **Zara Home** was launched.

In 2006 Inditex broadened its distribution capacity by opening an important hub for the Spanish Northwest in Leon, and the following year it inaugurated a logistics platform in Alcala Meco, Madrid.

Inditex plunged into online sales in 2007, when it set in motion the group's first **online store** by Zara Home. See appendix 2 for online stores in each commercial format.

In 2008, Inditex launched the fashion accessory brand **Uterqüe**. By the end of that year, Inditex had increased its presence to 72 countries, meeting a broad range of customers thanks to diversification. The positioning of each brand of the group is explained in appendix 3.

In July 2011 *Fashion Retail* started operating in Spain as subsidiary for Inditex's virtual stores. By the end of that fiscal year, the online store operated in 16 European countries⁶.

Along with Amancio Ortega, two other people had been key to the development of the firm: José María Castellano and Pablo Isla. Castellano was CEO until Isla succeeded him in 2005. Isla became chairman in July of 2011, and since then Ortega has held no executive position in the company.

Isla led Inditex group's commercial expansion worldwide, with more than 6,000 stores in 76 markets, and consolidating the multichannel strategy. Online sales spread to all the group's brands, and online stores were opened in the United States and Japan.

According to Forbes⁷, Amancio Ortega's fortune was valued at 57,600 million euros in 2015, again coming up as the richest man in Spain and fourth worldwide, after Bill Gates, Carlos Slim and Warren Buffet who had 70,700; 69,000 and 65,000 million euros respectively.

⁵ Ibex stands for Índice Bursátil Español (Spanish Exchange Index). It is a market capitalization weighted index comprising the 35 most liquid Spanish stocks traded in the Madrid Stock Exchange General Index.

⁶ Inditex started selling online in 2007, through the brand Zara Home only. In September 2010 it broadened its electronic sales to Zara.

⁷ Forbes was a business and finance magazine published in the United States. Each year it published its list of the World's Richest People.