Inditex group essay

David Llacuna Ferrer (2011950089) Index 1. Inditex Group 1. 1 Inditex 1. 2 Share information and ownership 1. 3 Inditex portfolio 2. Competitors 2. 1 H&M 2. 2 Uniqlo 2. 3 GAP 2. 4 Benetton 3. Inditex in South Korea 3. 1 Entry strategies 3. 2 Entry strategy in South Korea 3. 3 Lotte 3. 4 SWOT analysis 3. 5 Inditex in Asia 4. Bibliography 1. Inditex Group 2. 1 Inditex Inditex is a large Spanish multinational and nowadays is the largest fashion group, above of GAP. It is made up of almost a hundred companies dealing with activities related to textile design, production and distribution.

Inditex was founded by Amancio Ortega, who is the richest man in Spain, and the 7th World’s richest man Inditex has more than 5, 000 stores all over the world and owns many brands that I will define in the following points. The majority of Inditex stores are corporate-owned, but as we will see, Inditex uses other strategies to open new stores. Nowadays Inditex employs more than 100. 000 workers all over the world. | 2010| 2009| 09/10| Income| 12. 527 M€| 11. 084 M€| 13%| Net income| 1. 732 M€| 1. 314 M€| 32%| Stores| 5. 044| 4. 607| 437|

Coutries| 77| 74| 3| Workers| 100. 138| 92. 301| 7. 837| The characteristic that make Inditex different from its competitors is that Inditex almost designs and manufactures everything by itself, and thanks to that, new designs can be dispatched twice a week to its stores. The headquarters of Inditex are in Arteixo, a town in northwestern Spain, and it is there where almost all its merchandises are manufactured; about 50% of the production is made near Arteixo, about 30% is made in China, and the rest of the production is made in Europe.

Moreover, Inditex has another big plant mainly responsible for shoes' design, production and distribution in Elche, in the Spanish Mediterranean coast. Between years 1996 and 2001, the group tripled its size, and after 2001 it rocketed its revenues from $2. 43 billion in 2001 to $13. 6 billion in 2007. As a result, and in August 2008, Inditex overcome Gap, making Inditex the world's largest fashion retailer. Actually, Inditex is doing one of the fastes global expansions the fashion world has ever seen, opening an average of one store per day and entering into new markets.

Inditex is doing all of this in one of most difficult industries to operate in, due to short product circles, volatile demand, and competition. As a result, if Inditex failed in the prediction of future fashion trends, it should have really bad consequences for the company. So, in a market where a company's performance is dependent on the success of the seasonal collections, Inditex is a really good example of a company that is capable of generating growth and continuously expanding its operations. Inditex has changed the whole perception of business processing in the clothing industry with its alternative in-house fast-fashion model. . 2 Share information and ownership Share information In 2001, Inditex was listed on the Madrid stock exchange market, and institutional and private shareholders bought 26% of the shares. Today it is listed at all four stock markets in Spain: Madrid, Valencia, Barcelona, and Bilbao. Ownership If we looked at the graphic below, we realized that Amancio Ortega holds the majority of the shares and he has the controlling voting rights of the company, because he is the owner of Gartler S. L. and Partler S. L. , which have the 50, 01% and 9, 28% respectively.

It means that, Amancio Ortega, the founder of Inditex, still has the majority control of the company, although the company was listed many years ago (2001). 2. 3 Inditex portfolio As we have said before, Inditex is a well diversified group of brand concept stores, engaged in textile designing, production and distribution. Through its different stores, Inditex is capable to cover all the main segments in the fashion group, and each store is specialized in one target market. Now we are going to describe briefly Inditex's portfolio, and the sales contribution by brand:

Zara: Zara is the firm's main brand and the growth engine, accounting for nearly two-thirds of sales. However, some of the company's store use another brand called Lefties (without referring in any place of the Zara's store), that they are clothes of sales and low quality clothes. Kiddy's Class: Kiddy's Class is a chain specialized in children: we can find clothes for kids, accessories, cosmetics and fragrances. The first store was opened in 2001, and nowadays there are more than 200 stores all over the world, although the main part of them are in Spain and Portugal.

Pull and Bear: Pull and Bear is focus on casual clothes and accessories for young people with affordable prices. The first store was opened in 1991. Bershka: The first store was opened in 1998, and it began distributing fashion for girls. However, now it's distributing clothes for boys too. Its target market is young people, although not as urban as Pull & Bear. Massimo Dutti: Massimo Dutti was acquired in 1995, and its clothes are more elegant and classic, for both daily and formal clothes. This brand is more expensive than the others brands of the group. It offers fashion for women, men and, recently, for children.

Stradivarius: As Pull and Bear, the target market of Stradivarius is young people, and it has an innovative concept in fashion. Oysho: Oysho offers women's underwear (but also includes pyjamas, accessories, bathing suits in the summer and more). Zara Home: Zara Home don't sell clothes for people, it offers interiors, utensils for household furnishings, accessories and kitchenware. Uterque: This is one of the latest addition to Inditex. Uterque offers accessories such as shoes, handbags, jewellery and sunglasses. In terms of the price, this brand is more expensive than the others ones, except Massimo Dutti.

Tempe: Tempe is Inditex Group's footwear company and the last addition to Inditex group. Tempe designs and distributes the footwear that accompanies the fashions of all its brands. Company| Number of Stores (January 2011)| Year of creation| Zara| 1. 518| 1975| Zara Kids| 205| 2001| Bershka| 720| 1998| Pull and Bear| 682| 1991| Massimo Dutti| 530| 1995 (acquired)| Stradivarius| 593| 1999 (acquired)| Oysho| 432| 2001| Zara Home| 284| 2003| Uterque| 80| 2008| Tempe | 2| 2011| TOTAL| 5. 046| | 2. Competitors In this point, we are going to introduce the main competitors that Inditex has in the international environment.

Despite being the main competitors, who dominate the market are the little companies, who have the main part of the sales. 3. 4 H&M Hennes & Mauritz AB (operating as H&M) is a retail-clothing Swedish company, known for its fast-fashion clothing offerings for women, men, teenagers and children. The company was founded by Erling Persson in 1948. It has almost 2, 200 stores in 38 countries and in 2011 it employed more than 87, 000 people. The steps of production from merchandise planning to establishing specifications are controlled by design team, placed in Sweden.

The production of H&M is outsourced to more than 800 factories, almost of them in Europe and in Asia. These facilities are used for horizontal division of labor rather than being integrated. 3. 5 Uniqlo Uniqlo Co. , Ltd. is a Japanese casual wear designer, manufacturer and retailer. It has more than 800 stores in Japan, and it employs more than 30. 000 people, where is the leading clothing chain in terms of sales and profits. Uniqlo originally was a division of the company Fast Retailing Co. , Ltd. , but in 2005, Uniqlo Co. , Ltd. was born of corporate restructuring, and now exists as a consolidated subsidiary of Fast Retailing. . 6 GAP Gap, Inc. has its headquarters in San Franciso, and it is an American clothing and accessories retailer. GAP was founded in 1969 by Donald G. Fisher and Doris F. Fisher. Nowadays, GAP has five primary brands: the namesake Gap banner, Banana Republic, Old Navy, Piperlime and Athleta. It has approximately 134, 000 employees in 2011 and it has more than 3, 250 stores worldwide, of which more than 2, 500 are in the United States, where it remains the largest specialty apparel retailer in the U. S. 3. 7 Benetton Benetton Group S. p. A. is a global luxury fashion brand, based in Italy.

The company was founded in 1965, and the name of the company comes from the family who founded it: Benetton family Benetton has a network of around 6, 000 stores in 120 countries, which are managed by independent partners. In 2009 it employed 9, 511 workers and a total turnover of over 2 billion euro. Casual clothing is marketed as the “ United Colors of Benetton”, but there is also a fashion-oriented “ Sisley” division, “ Playlife” leisurewear.

Nowadays, the company is expanding into toiletries, perfumes, and items for the home such as kitchen accessories and baby products. 3. Inditex in South Korea 4. 8 Entry strategies

To enter into a new market, Inditex could do three types of strategy: * Franchising: The franchising is a form of license in which a company authorizes his business system to another independent company or, even, to a person. The agreement authorizes to the franchisee to do business with the name of the franchisor, to using his system of marketing and his brands. The idea of the chain of the franchising is that they all use the model of the same way. It presents the following advantages: a rapid expansion on a foreign market with low financial and political risk and the standardization of the marketing.

Between the disadvantages there are the losses of the control on the operations of the franchisee, the limitations and in the benefit of the franchisee. The internationalization through the franchising can be considered to be a good option if the company wants to expand but does not want to invest in the country. * Joint ventures: The joint ventures are a special type of shared property that is composed by the investment of two or more companies. The joint venture is a common form of participation in companies that go out of the stage of export towards a major participation in the operations in the exterior.

Joint ventures are in use often in countries where direct investment is prohibited or not stimulated. Nevertheless, in this form of entry both the investments and the risk are shared, and the strong points with each one can help to the good performance of the business. A fundamental decision is the choice of the local partner. * Own subsidiaries: The direct investment with the opening of subsidiaries has his importance in the processes of internationalization, emphasizing a summary of his advantages and disadvantages.

Direct investment reduces the risks of transaction on having provided to the company advantages of the location on the resultant market of destination of the competitive costs and to the access to critical resources, allowing the development of new knowledge and capacities that strengthen its international competitiveness and the strengthening of the knowledge of the organization on different markets. Unlike Spain, where all the stores are acquired and managed by the own company, internationally there exist these three different types to entry in the market: own subsidiaries, joint ventures and franchising.

To enter into a country, Inditex usually uses only one of these strategies, though sometimes it has changed its strategy. Zara expands internationally across own shops in countries with good perspectives of growth and with a low managerial risk. The contracts of franchising have duration of five years, and the franchisees generally are strong financially and are Inditex partners in complementary business. The franchisings are exclusive of one only franchised by country. Zara uses joint ventures in the biggest and most important markets where there are some barriers at the direct entry.

In most of the cases, there are related with the difficulty to obtain a space in the most important places of the country or the city (flagships), where

Inditex placed its stores. 4. 9 Entry strategy in South Korea. South Korea, with a population of 50 million people, and with purchasing power parity (PPP) per capita of $29, 835, is one of the most attractive markets in Asia, and for Inditex, IS a priority due to the forecast for Korean economy. Moreover, when Inditex decided to enter into the Korean market, their main rivals like H&M and GAP hadn’t got a strong position in the market.

Knowing the potential that Korea has, Inditex had to select the best way to entry into the country. At the end, Inditex chose the option of making a joint venture with a local company. The reasons why Inditex did this were: * Inditex hadn’t got experience in Korean market. * When Inditex enter in a country, their stores are in the best locations. However, in Korea the best locations weren’t available. As a result, Inditex decided to make a joint venture with South Korean retailer Lotte Shopping Co. to open the European clothing retailer’s Zara outlets in Korea.

With a paid-in capital of 650 million won (US$707, 000), the venture to be established on October 2010, and thanks to it, Inditex will open the outlets in Lotte’s department stores. Inditex will hold an 80 per cent stake in the venture, and Lotte will own the remaining 20 per cent. Until then, Inditex has opened 29 stores (27 Zara’s stores, and 2 Massimo Duti’s stores), and it wants to improved its presence in South Korea, opening more stores in the following years. 4. 10 Lotte Lotte Co. , Ltd. is one of the largest food and shopping groups in South Korea and Japan.

Lotte was established by a Korean businessman educated in Japan, in June 1948. Lotte expanded into Korea in 1967 after the improvement of Japan-

Korea relations in 1965. Lotte Group consists of more than 60 business units employing more than 60, 000 people who works in diverse industries like for example: candy manufacturing, beverages, hotels, fast food, publishing, entertainment and more. Lotte's main operations are overseen by Shin Kyuk-Ho's family in South Korea and Japan, with additional businesses in many other Asian countries.

The Company was listed on the Korea Stock Exchange and London Stock Exchange through an initial public offering in February 2006. 4. 11 SWOT analysis Strengths | Weaknesses| FlexibilityVertical integration| Manufacturing and distribution centres | Opportunities| Threats| Asian markets| Euro-centric model| Strengths Flexibility: Despite competitors take many months to come up with a new seasonal collection, Zara is able to do the same in just two weeks, as it proved after 11/9, launching a black-line clothes. Moreover, Inditex is able to launch many collections every year, because of they ask and monitor what the customer wants.

Vertical integration : Another strength that Inditex has is the vertical integration in the company. It does almost everything near the distribution centers, allowing for delivery to go out to stores twice a week. They design, manufacture, produce and ship right from Spain, saving time. In fact, a main competitor like Gap is twelve times slower. Moreover, clothes are tagged at the production site, allowing its store employees to be 5% more efficient in other activities of the store. Zara is the only clothing retailer with one manufacturing site, and the only one that follows consumer trends instead of creating them.

Weaknesses The biggest weakness that Zara has is that it only has one manufacturing and distribution center in the world. It can be both an advantage and a disadvantage. It is true that it helps them follow the counter-intuitive approach to apparel, but there are huge risks associated with just one center. Moreover, and because the manufacturing and distribution center is far away from South Korea, the transportation costs are really high. Therefore, Zara uses planes and trucks to transport its clothes to the stores, which are more expensive than ships and trains.

As a result, the price in this country, and in Asia and America, is higher than in Europe Opportunities Since they have fully penetrated one region of the world, the chance of growth is really high. In the near future, the source of growth could come from Asia and India, where Inditex has formed joint ventures with some companies like Lotte and Tata to create distribution centers to the public. Moreover, in these countries the competence from its main competitors is still weak. As a result, it is going to be easier for Inditex to get brand awareness and grow in this area. Threats The main threat is that it has a model based on euro-centric.

Precisely in this area, it is expected an over saturation of Zara stores by 2013, which implies that running the stores would cost more money than the revenue Inditex is going to get from them. Moreover, and because of the strength of euro (one of the strongest currency), prices in places as USA and South Korea increase. 4. 12 Inditex in Asia In 2010, Inditex opened 75 new stores in China, being China, South Korea, and Japan the main markets in Asia for Inditex. It had 68 stores in China and 50 in Japan in 2009 and it is expected that Inditex opens more stores there. Inditex reaped sales revenue of EUR 12. 27 billion in the global market last year, of which 15% came from the Asia market, far away from the previous year (3%). Market observers say that it will take a long time for smaller local peers of Inditex to catch up with the clothing giant in the world's most populous fashion market, although multinationals take a small slice of the market at the moment. There are many challenges of operating in Asia, but the opportunities overcome the challenges. Demand for fast fashion and online retailing is growing with average of about 6%, and this will be encouraged not just by rising incomes but also rising access to technology.

Moreover, the total retail sales are expected to be more than $8. 5 trillion in 2014. However, there are many differences: while China is expected to growth 14. 6% in 2011 and 12. 4% in 2012, in South Korea is expected to growth just 2% in 2011, and 2. 4% in 2012. Moreover, in Asia, there are many trends to watch out for, like the consolidation of operations for some multinational retailers and the increase in the demand said before. This is the reason why Inditex competitors have entered into the Asian market, as we can see in the graphic below, where we can see how many stores had Inditex and its competitors in 2010. 4. Bibliography: * www. uk. yahoo. finance. com * http://investing. businessweek. com/research/stocks/financials/financials. asp? ticker= LOTPTA: PA * http://www. google. com/url? sa= t; source= web; cd= 3; ved= 0CDEQFjAC; url= http%3A%2F%2Fwww. lotteshoppingir. com%2Fdata%2Fpdf %2F1Q_Non-consolidated_Financial_Statements. pdf; rct= j; q= Lotte %20financial%20data; ei= kJXZTf7GI4aIvgO9r5zCBw; usg= AFQjCNH3MlAmUB4Oa6Hnuw7cpL4mPvj2Dw; sig2=

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