

Inditex case study

Education



“ INDITEX GROUP - ARE ITS “ FAST FASHION” RESULTS SPEEDING UP AGAIN AFTER RECENT SLOW DOWNS ? ” This case study has been written exclusively for use on the course Strategic Financial Management FINA 1035 at Greenwich University Business School and its partner institutions. It is to be used exclusively for this purpose. No part may be copied , emailed or reproduced for any other purpose other than stated above. Much of the data and material included in the case study is taken from the annual reports and accounts of the Inditex Group, its public statements and from its website . inditex.com. All other sources are shown in the case study. Author : Scott Duncan Lecturer Greenwich University Business School July 2010 INDITEX GROUP - ARE ITS “ FAST FASHION” RESULTS SPEEDING UP AGAIN AFTER RECENT SLOW DOWNS ? Introduction Inditex Group - the owner of the Zara fashion chain and the world’s largest clothing and apparel group in terms of sales - reported encouraging results for its first quarter of 2010.

The Financial Times reported in June 2010 1) : “ Inditex lent its weight to hopes of a recovery in European demand as the continent’s biggest fashion chain delivered forecast-beating first-quarter net profits and confirmed it would be moving its fast-fashion offer online later this year. Europe’s biggest clothing chain reported a 14 per cent increase in net sales to €2. 66bn (\$3. 2bn) in the three months to the end of April 2010, as net income rose 63 per cent to €301m in response to, in particular, demand for its sharp-shouldered jackets and draped harem trousers. Sales rose 13 per cent from the beginning of February to June.

The uptick comes after Hennes & Mauritz in April raised hopes of recovery in the European retail sector when it also beat net profit expectations in its

first-quarter results and reported signs of improvement in the market at the start of the second quarter. Inditex has been upbeat on prospects for the current year, with Pablo Isla, chief executive, predicting that same-store sales growth should turn positive again after a negative 2008 and virtually flat 2009. Mr Isla, who sells a third of all his clothes in Spain, was even upbeat about his home market on Wednesday. [The] reality in Spain is better than the perception you may have. I personally have a strong confidence in the dynamism of the Spanish economy going forward. " The gross margin, meanwhile rose to 59.9 per cent against 56.9 per cent. "[It is] likely to lead to consensus upgrades," wrote Andrew Hughes, analyst at UBS, in a note. The shares rose 5 per cent to €46.11. " Despite concerns of slower sales growth into the second quarter and as the year progresses, the first quarter beat [expectations] and stronger gross margin trends should more than compensate," Mr Hughes added.

Analysts also welcomed the news that Zara, which still makes a third of all its sales in Spain, would start trading online at the beginning of September in its main European markets: France, Germany, Italy, Portugal, Spain and the UK. " Online should act as a downward protection for trading news in the second half," wrote Bernstein in a note. During the period, Inditex opened 98 stores in 29 countries, taking its footprint to nearly 5,000 stores in 76 nations around the world. Last month, it opened its first Indian shop in Delhi".

History of Inditex Group 2) Industria de Diseño Textil (Inditex) makes disposable chic fashions that are here today and gone tomorrow. The Spanish designer-cum-retailer uses technology and an armada of designers to master cheap chic. Inditex sells on a global scale, with over 4700 shops in 76

countries under eight different retail brands each offering different customer propositions : Store Brand and Zara Kids Pull and Bear Massimo Dutti Primarily Offering Market 3) and Target Women's and men's clothes.

Childrens' clothes Young women and men's casual and "laid back" clothes and accessories Men's and women's clothes for the more "sophisticated" shopper. Also sells some children's clothes Young women's and men's clothes . Stores have "cutting edge" look and are meeting points for fashion, music and street art Latest trends in young women's clothes and accessories Women's underwear, lingerie and nightwear Items for home eg home textiles, bedclothes, bathroom and table linen, glassware, cutlery and children's bedding Fashion accessories eg handbags , footwear, leather goods and costume jewellery

Bershka Stradivarius Oysho Zara Home Uterque The firm's stores answer to popular trends by telling designers in Spain what customers are asking for locally. Inditex responds in about two weeks with new designs. Amancio Ortega Gaona, Spain's wealthiest businessman, founded Zara in 1975 and later created Inditex as a holding company. He got his start in the clothing business at the age of 13, when he went to work for a local shirtmaker in A Coruna , Spain, delivering the shop's goods, which included lingerie and dressing gowns.

Ortega worked his way up to become an assistant manager, then shop manager, by the early 1960s. These positions gave Ortega experience not only in dealing directly with customers but also in purchasing fabrics and other materials for the shop's line of apparel. Working out of his sister's home, Ortega began developing his own designs. One day in the early

1960s, he hit upon the formula that was to become central to the operations of Inditex: that of reproducing popular fashions using less expensive materials in order to sell highdemand clothing items at lower prices.

Ortega left his job and set up in business with just 5, 000 pesetas (the equivalent of \$25). Legend has it that Ortega's first project was to remake a popular but expensive dressing gown. Ortega cut the pattern himself, then, with the help of his brother and sister, began producing the dressing gown at his sister's kitchen table. Ortega's first customer was his former employer at the shirtmaker's shop. Before long, Ortega began supplying the dressing gown, as well as a growing range of housecoats and lingerie, to other clothing shops in A Coruna.

By 1963, Ortega had saved up enough to open his first factory. From manufacturing, Ortega soon turned to retail, launching an initial format for his housecoats and lingerie in the early 1970s. In 1975, however, Ortega, then 39 years old, hit upon the formula that was to bring him his biggest success. In that year, Ortega opened a new retail store called Zara, which featured low-priced lookalike products of popular, higher-end clothing fashions. The store proved a success, and the following year Ortega incorporated his business under the name Goasam and began opening more Zara stores in Spain.

Despite the stores' growing popularity, Ortega himself remained decidedly behind the scenes, avoiding the spotlight and developing a reputation for himself as a recluse--no photographs of Ortega were made publicly available until 2001. By the early 1980s, Ortega had begun formulating a new type of design and distribution model. The clothing industry followed design and

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production processes that required long lead times, often up to six months, between the initial design of a garment and its delivery to retailers. This model effectively limited manufacturers and distributors to just two or three collections per year.

Predicting consumer tastes ahead of time presented inherent difficulties, and producers and distributors faced the constant risk of becoming saddled with unsold inventory. Ortega sought a means of breaking the model by creating what he called "instant" or "fast fashions" that allowed him to quickly respond to shifts in consumer tastes and to newly emerging trends. Ortega's dream remained unfulfilled, however, until he met up with Jose Maria Castellano. A computer expert, Castellano had worked in Aegon Epa's information technology department before becoming chief financial officer for a Spanish subsidiary of ConAgra.

Castellano joined Ortega in 1984 and set to work developing a distribution model that revolutionized the global clothing industry. Under Castellano's computerized system, the company reduced its design to distribution process to just 10 to 15 days. Rather than placing the design burden on a single designer, the company developed its own in-house team of designers-- more than 200 by the turn of the 21st century - who began developing clothes based on popular fashions, while at the same time producing the company's own designs.

In this way, the team was able to respond almost immediately to emerging consumer trends as well as to the demands of the company's own customers - for instance by adding new colors or patterns to existing designs. State-of-the-art production and warehousing procedures, as well as the installation of

computerized inventory systems linking stores to the company's growing number of factories, enabled the company to avoid taking on the risk and capital outlay of developing and maintaining a large back inventory. The leaner, more responsive company - which adopted the name of Industria de Diseno Textil S.

A. , or Inditex, in 1985 - captured the attention of Spanish shoppers. By the end of the decade, the company had opened more than 80 Zara stores in Spain. The company's fast fashion model, which completely rotated its retail stock every two weeks, also encouraged customers to return often to its stores, with delivery day becoming known as " Z-day" in some markets. The knowledge that clothing items would not be available for very long also encouraged shoppers to make their purchases more quickly. The success of the Zara model in Spain led Inditex to the international market at the end of the 1980s.

In 1988, the company opened its first foreign store in Oporto, Portugal. The following year, Inditex moved into the United States. Success in that market remained elusive, however, and at the beginning of the 2000s, the company had opened just six U. S. stores. A more receptive market for the Zara format existed in France, which Inditex entered in 1990. The company quickly began adding new stores in major city centers throughout the country. Through the 1990s, Inditex added a steady stream of new markets. The company entered Mexico in 1992, Greece in 1993, Belgium and Sweden in 1994, Malta in 1995, and Cyprus in 1996.

In the late 1990s, Inditex stepped up the pace of its international expansion, adding Israel, Norway, Turkey, and Japan (the latter in a joint-venture with a

local partner) in 1997, then, in 1998, moved into Argentina, the United Kingdom, and Venezuela. While the bulk of the group's stores remained company owned, in certain markets, such as the Middle East, starting in 1998, Inditex's expansion took place through franchise agreements with local distributors. By 2000, Inditex had added another dozen or so countries to its range of operations, including Germany, the Netherlands, and Eastern European markets including Poland.

At the same time as Inditex pursued its geographic expansion, it also began expanding beyond its flagship Zara retail format. The company launched the Kiddy's Class children's wear format as a subgroup of the main Zara concept in the early 1990s. In 1991, the company added an entirely new retail format, Pull & Bear, which began providing "urban" fashions. By the beginning of the 2000s, the Pull & Bear chain had grown to 300 stores in nearly 20 countries; it also produced its own offshoot format, Often, targeting the 20- to 45-year-old men's segment, in 2003.

Inditex went upmarket in 1991 when it bought 65 percent of the Massimo Dutti group. Inditex took full control of Massimo Dutti in 1995 and began building it into a chain of nearly 300 stores in 23 countries. While Massimo Dutti appealed to a more sophisticated men's and women's fashions market, the company targeted the young female market in 1998 with the creation of a new format, Bershka. That retail chain quickly evolved into a network of more than 200 stores operating in 11 countries. Inditex continued adding new formats at the turn of the 21st century.

In 1999, the company acquired Stradivarius, a youth fashion chain present in nine countries. In 2001, Inditex added its lingerie format, Oysho. In 2003, <https://assignbuster.com/inditex-case-study/>

Inditex moved beyond the garment trade for the first time, launching its own home furnishings concept, Zara's Home and in 2008, launched its fashion accessories chain - Uterque. Meanwhile, Inditex had begun a corporate evolution as well. As Ortega approached retirement, and no members of his immediate family appeared likely to succeed him in the business, the company looked to the public market to ensure its future.

In 2001, Inditex listed its stock on the Bolsa de Madrid, one of the most successful initial public offerings of the year. Ortega's sale of more than 20 percent of his holding in Inditex made him Spain's wealthiest man. In 2010, he still controls 59% of Inditex's shares (see Annex 1) and was ranked by Forbes Magazine as the 9th richest man in the world in their annual list of billionaires - up 1 place from his ranking in 2009 - with a net worth estimated at \$25 billion. He is now 74 years old. Inditex moved to a new corporate headquarters in Arteixo, outside of A Coruna in 2000.

In 2002, the company began construction on a state-of-the-art logistics center in Zaragoza. At the same time, Inditex continued adding to its array of international markets, opening stores in Luxembourg, Iceland, Ireland, Jordan, and Puerto Rico in 2001; Switzerland, Finland, El Salvador, and Singapore in 2002; and Hong Kong in 2003. In the 6 years from 2004, Inditex has more than doubled its number of stores from just over 2000 in mid 2004 to over 4600 by 31 January 2010. Inditex's financial year end is 31 January.

In line with Inditex's annual reports, this case study refers to its year ending 31 January 2010 as " Financial year 2009" or " 2009". Similar abbreviations are made for earlier years . Inditex Group Store Numbers and Locations in 2010 At financial year end for Inditex for 2009 - 31 January 2010 - Inditex <https://assignbuster.com/inditex-case-study/>

had 4607 stores as follows: The analysis of Inditex's 2009 sales for each of its 8 store concepts was as follows : Within the total, 3983 were company managed stores and 624 were franchised - see Annex 2 for details. In 2009, 92% of sales were in company owned stores.

Geographically, 1900 of the stores were in Spain, 1856 stores were in other European countries, 485 stores were in Asia and Africa and 366 stores were in North and South America - see Annex 3 for details. The Group opened 343 stores in 2009 and increased its retail network in all of Europe's major markets with noteworthy growth in Russia (37 new stores) and Poland (34). In Asia, Inditex continued its strategic push into the region's top three markets, which posted significant growth, with 41 new stores in China, 12 in South Korea and 10 in Japan.

Retail sales area increased by 8% in 2009 - see Annex 4 for details by store concept. During its first quarter 2010 from 1 February to 30 April , Inditex opened a further 98 stores as follows : This took the total number of stores to 4705 at 30 April 2010. The percentage of Inditex's sales achieved in each geographical region for the last 3 financial years was as follows : 2009 31. 8 % 45. 7 10. 2 12. 2 2008 33. 9 % 44. 8 10. 7 10. 5 2007 37. 5 % 42. 4 10. 8 9. 4 Spain Europe excl.

Spain Americas Asia The Mar ket The apparel retail industry consists of the sale of all menswear, womenswear and childrenswear. The sector also includes footwear, sportswear and accessories. The menswear sector includes all garments made for men and boys. It includes both outer and under garments. The womenswear sector consists of the retail sale of all

women's and girls' garments including dresses, suits and coats, jackets, tops, shirts, skirts, blouses, sweatshirts, sweaters and underwear .

Both womenswear and menswear can be segmented by: - purpose or use of the clothing item eg casual wear, essentials, activewear, formal wear , special occasion formal wear and outerwear - age group - lifestyle eg “ sporty”, “ conservative ” , “ fashion conscious” , “ hippie”, “ urban”, “ rural” - ethnic group styles eg Afro-Caribbean , African American , Asian or middle eastern or music group styles eg “ rapper”, “ reggie”, “ punk”, “ rocker” - price eg ranges from low price to expensive designer label to exclusive “ haute couture” of Paris, Milan, London, Tokyo and New York or by a combination of these factors.

The childrenswear sector is defined as sales of garments for children between the ages of 0-2 years. The socio-political environments coupled with the need for individual and group identity makes retail clothing essential to consumers. Style, however, is an abstract concept that defines individuals, is often an extension of personality and therefore highly individualized. Fashion, by its very nature, is unpredictable. The products are determined by trends in society, designers and creative industries and are subject to sharp and unpredictable changes.

Where customer brand loyalty exists, it is more likely to be to the designer than the retailer, although this is usually towards the top end of the industry. Counterfeiting of brands is a problem in parts of the clothing and accessories industry. Market in Europe The European apparel retail industry grew by 2.1% in 2008 to reach a value of €287.7 billion (\$420.9 billion). Its recent history per Datamonitor 4) was as follows : The consumer market for clothing

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and footwear in the European Union (or EU) has undergone important changes in recent years 5).

Arguably, the greatest impact has come from market forces under the auspices of the World Trade Organisation (WTO) as a ten-year transitional Agreement on Textiles and Clothing (ATC) came to an end with the abolition of textile and clothing import quotas on 31 December 2004. With the removal of quotas, there was an initial increase in relatively cheap imports of clothing and footwear into the EU, mainly originating from China. For example, in the first 40 days after the end of the ATC, imports of trousers from China were 3.3 times higher than during the whole of 2004 and imports of pullovers 4. times higher. A bilateral agreement between the EU and China (the so-called Shanghai Agreement) on a further, transitional period during which the growth of imports of clothing could be managed through until the end of 2007 was agreed in June 2005. In addition to trade developments, consumer groups and other bodies are increasingly holding manufacturers and retailers accountable for ensuring that social standards and working conditions of their suppliers meet international labour standards. There are examples of retailers responding to this pressure.

For example, in October 2007 the Inditex group signed an International Framework Agreement on corporate socialresponsibilitywith the International Textile, Garment and Leather Workers' Federation (ITGLWF), which expresses the company's commitment torespectfundamental rights at work throughout their entire production chain. Fair trade garment initiatives have also been taken, generally to ensure that a fair price is paid to producers who meet minimum social, and in some cases environmental, standards and

that trading relationships between producers and buyers are more equal, rather than guaranteeing core labour standards.

There has also been a response within the EU to concerns about environmental and safety issues. These concerns have predominantly focused on the use of chemicals (such as dyes, pigments or bleaches in the clothing manufacturing process) and on waste water discharge. On 1 June 2007, new legislation on chemicals and their safe use came into force across the EU. REACH (Registration, Evaluation and Authorisation of Chemicals) aims to improve the protection of human health and the environment through the better and earlier identification of the intrinsic properties of chemical substances.

Within the EU 5) : - household expenditure on clothing and footwear accounted for 5.7% of total household consumption expenditure in 2005 - The vast majority of this, almost three quarters, was spent on clothing garments - Spending on clothing and footwear tended to rise as a function of income, with the upper income 20 percent in the 27 countries of the EU devoting 6.1% of their total household budget to these products, while those in the lowest income 20 percent spent 5% - the share of total expenditure spent on clothing and footwear was generally much higher among households with dependent children, rising to 7% of the household budget for those households comprising two adults with dependent children, compared with 4.6% of the budget for single persons. - Annual expenditure on clothing and footwear averaged €800 per person in the 27 countries of the EU in 2006, with national averages ranging from €100 per person in Romania to €1200 per person in Italy . See Annex 5 for details of 2000 and

2006 expenditure per person. - Over the period from 2000 to 2006 , the volume of clothing and footwear bought rose in most countries of the EU particularly in the United Kingdom and Poland where volumes increased by over 40%.

In contrast , Germany and Italy reported declines in the volume of clothing and footwear bought (the only member states of the EU to do so). Details are shown at Annex 6 for the 6 countries which account for over 70% of the EU's population - Germany, France, Italy , UK, Spain and Poland . - Over the same 2000- 2006 period, whilst consumer prices for clothing and footwear declined by 0. 1% for the EU overall, there were substantial differences in the “ Top 6” countries listed above.

The UK recorded price decreases of over 20% , Poland of over 15% and Germany of over 2%, whilst price increases were recorded in Italy (over10%) , Spain (over 13%) and France (1%) - see Annex 6. - Between 2007 and 2008 , the volume of clothing and footwear bought in the EU overall declined by 0. 5% . France , Italy and Spain recorded declines of over 2% whilst Germany , UK and Poland recorded increases - see Annex 6. - In 2008 , UK households spent less on average per week on clothing and footwear than at any time since 2001-02 6) - Early indications are that volumes also fell in 2009 versus 2008 in Europe.

France reported a year on year decline of 3. 6% . a) Mar ket Segmentation by Gender and Age Womenswear sales dominated the European apparel retail industry in 2008 4) generating 54. 4% of the industry's overall revenues - €157 billion (\$ 229 billion) . Menswear accounted for 30. 9 % - €89 billion (\$130 billion)- and Infantswear the remaining 14. 7%. Details of <https://assignbuster.com/inditex-case-study/>

womenswear market growth and segmentation in Europe are shown at Annex 7 and of the menswear market in Europe at Annex 8. b) Analysis by Major Country Italy accounts for 19% of the European apparel retail industry's value, Germany 18. % and the UK 14. 4% . Shares for other countries are shown below: c) Market Value Forecast The European apparel retail industry was forecast by Euromonitor to grow by only 1. 3 % in 2009 versus 2008 - including price changes. In 2013, the European apparel retail industry is forecast to have a value of €320 billion (\$467. 6 billion), an increase of 11. 1% from 2008. Details are shown at Annex 9. d) Retail Source of Purchases Consumers in Europe are able to purchase clothing and footwear from a wide variety and large number of retailers, specialised and non- specialised.

Specialist clothing and footwear retailers comprise chains (such as H, C or Zara) and independent clothes stores. Nonspecialist retailers include department stores (that have clothing and footwear departments), hypermarkets and supermarkets, as well as mail- order retailers. According to Datamonitor, 69% of purchases of womenswear and 55% of purchases of menswear in 2008 was in chains or independent specialist clothing, footwear and accessories shops . Purchases at hypermarkets, supermarkets and discounters accounted for 19. 5% of womenswear sales and 12. 1% of menswear with department stores taking a 6. 9% of womenswear and 24. % of menswear in 2008 (see Annexes 7 and 8). There are generally higher levels of retail concentration in northern Europe⁵). The overwhelming majority of clothing and footwear sales in Germany, France and particularly the United Kingdom are made in non-specialist stores. The popularity of

independent clothing and footwear retailers is considerably higher in southern Europe. For example, in Italy and Spain, the highest proportion of clothing sales was among independent retailers (65% and 53 % respectively in 2004), and this tendency was even stronger in terms of footwear (76 % and 88 % respectively in 2003).

Despite these differences, clothing markets in Europe are generally becoming more concentrated, as clothing chains, department stores and supermarkets/ hypermarkets selling clothing and footwear open additional outlets in many of the countries that have joined the EU since 2004. Indeed, the structural make-up of clothing retailers in the EU has changed considerably over the past 15 years, according to a 2007 report on 'Business relations in the EU clothing chain' carried out for and funded by the European Commission 5).

The market share of independent retailers in the five largest EU markets (Italy, Spain, France, Germany and the United Kingdom, that together account for almost three quarters of the EU's clothing market) declined from 46. 8 % of total clothing sales to 27. 1 % by 2007. In contrast, there was steady growth in the share of speciality chains (from 18. 7 % to 25. 1 %), hypermarkets and supermarkets (5. 1 % to 6. 8 %) and emerging formats such as variety stores and large sports chains (whose share of clothing sales collectively rose from 14. 0 % to 27. 2 %).

A recent survey on consumer satisfaction 5) provides further information on the shopping habits of European consumers for clothing and footwear. More than half (55. 7%) of those surveyed in the EU in 2008 replied that they themselves or a member of their household had bought clothing and

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footwear in a retail chain store, a somewhat higher proportion than for small, independent clothing retailers (50.2%). Department stores (30.7%), supermarkets/ hypermarkets (23.0%) and street markets (16.3%) were also popular places for buying clothes and footwear – see Annex 10.

Furthermore, compared with a number of other products, a relatively high proportion of European consumers used mail or phone order (8.0%) or the Internet (6.1%) to purchase clothing and footwear. When purchasing clothing and/or footwear in 2008, 10.9% of EU consumers reported facing at least one problem (5). The most common complaint was product quality (69% of unsatisfied customers) followed by problems returning unwanted goods (9.2% of respondents) then quality of service provided (8.8% of respondents). Details are shown at Annex 11.

This data also provides an insight into consumers' priorities when purchasing clothing and footwear. Market in USA Americans spent almost \$326 billion on clothing and footwear in 2009 equivalent to only 2.98% of disposable personal income - the lowest ever in U.S. history. Spending on clothing as a share of income has fallen in 20 out of the last 22 years, from 4.78% in 1988 to less than 3% in 2009 - see Annex 12 for details. Quality, variety and availability have all improved over the years. The same applies to footwear.

Since 1992, prices in general have risen by 57%, while prices for clothing have fallen by 8.5% - see annex 13. With significantly falling prices in real terms, clothing has become more and more affordable almost every year, requiring smaller shares of US household income. This has freed up disposable income that can now be spent on other consumer goods (eg electronics, travel, entertainment, etc.). Market in Asia Pacific 7) The Asia-

Pacific apparel retail market has been growing at a robust pace for the last few years. The Asia-Pacific apparel retail industry generated total revenues of \$224. million in 2008, representing a compound annual growth rate (CAGR) of 4. 1% for the period pning 2004-08. The performance of the industry is forecast to improve further and to reach a value of \$259. 6 million by the end of 2013. Key Retail Competitor s Inditex's key competitors in Europe include : Hennes and Mauritz (H) Levi Strauss (via franchised and company managed stores and third party retailers) Adidas sportswear (including Reebok). In the UK, key competitors include Primark (a division of Associated BritishFood) , Next, and Marks and Spencer . ASOS. com is a major retailer of men's nd women's clothes and accessories via the internet and is now the UK's largest independent on-line fashion retailer. Worldwide, key competitors also include Gap and " Fast Retailing" (Japanese parent company of Uniqlo and Asia's biggest clothing retailer). In terms of sales value, Inditex overtook Gap in 2009 and is now the world's largest clothing and apparel retailer. Summary financial profiles of Hennes and Mauritz, Levi Strauss , Primark and Gap are shown at Annexes 14 , 15 and 16. A recent article about the current prospects for " Fast Retailing" is shown at Annex 17. Manufactur ing Sour ces - Gener al

Key suppliers to the retail clothing industry are clothing manufacturers and wholesalers, with retailers able to source from both. Recently, significant increases in power cost, dyes & chemical cost and rapidly rising cotton cost have strengthened supplier power in an industry that relies on the availability of raw material. The wholesale and clothing manufacturing sectors in most countries, however, are fairly fragmented. As international

trade liberalizes, clothing manufacturers in the developed regions such as Europe and America face substantial competition from manufacturers in low-wage regions such as Asia eg from China. Apparel manufacturing is almost always labor intensive, due to the difficulty of automating processes such as the sewing of garments.). Key issue for clothing retailers in selecting its suppliers include : - price and quality - volumes - the ability of its suppliers to cope with sudden changes in demand in an industry susceptible to changes in fashion - social, political and environmental pressures to ensure that suppliers in developing countries meet minimum international ethical standards for working, social and environmental conditions.

Many major retailers such as Inditex, Gap and Primark now undertake regular audits of their suppliers to ensure that such standards are met and maintained and report their findings as part of their corporate social responsibility in their annual reports. Manufacturing Processes The key processes used in garment manufacture are as follows: Cloth manufacturing (eg cotton or wool) - spinning - weaving - dyeing - pattern printing - finishing. Certain aspects are labour intensive eg sewing . Garment manufacturing from the finished cloth: - cutting - sewing and assembly - buttons and accessories attachment.

There have been many technological developments in materials used over recent years including non-iron shirts, washable silk and man-made fibres. Key Aspects of the Inditex Business Model 3) A) Over view The Inditex business model has a high degree of vertical integration compared to other models developed by its international competitors. It covers all phases of the

fashion process: design, manufacture, logistics and distribution to its own managed stores and has a strong customer focus in all its business areas.

The key element in the organisation is the store, a carefully designed space conceived to make customers comfortable as they discover fashion concepts. It is also where Inditex obtains the information required to adapt the offer to meet customer demands. The key to this model is the ability to adapt the offer to customer desires in the shortest time possible. For Inditex, time is the main factor to be considered, above and beyond production costs.

Vertical integration enables Inditex to shorten turnaround times and achieve greater flexibility, reducing stock to a minimum and diminishing fashion risk to the greatest possible extent. B) Design The success of Inditex's collections lies in the ability to recognise and assimilate the continuous changes in fashion, constantly designing new models that respond to customer desires. Inditex uses its flexible business model to adapt to changes occurring during a season, reacting to them by bringing new products to the stores in the shortest possible time.

The models for each season -over 30, 000 in 2009 - are developed in their entirety by the creative teams of the different chains. Over 300 designers - 200 for Zara alone- take their main inspiration from both the prevailing trends in the fashion market and the customers themselves, through information received from the stores. C) Manufacturing A significant proportion of production takes place in the Group's own factories, which mainly manufacture the most fashionable garments.

The Group takes direct control of fabric supply, marking and cutting and the final finishing of garments, while subcontracting the garment-making stage to specialist firms located predominantly in the North-West of the Iberian peninsula. The Group's external suppliers, a high percentage of which are European, generally receive the fabric and other elements necessary for making the clothing from Inditex. The number of garments produced and available for sale at Inditex's stores has grown as follows from financial years 2005 to 2009 :

On 31 January 2010, Inditex had a network of 1, 237 suppliers with which it maintains stable relationships and which are governed by its External Manufacturers and Workshops Code of Conduct. This code describes the minimum ethical, working practice, quality, safety and environmental standards expected of its suppliers and must be accepted to maintain commercial relations with the Group. Further details of Inditex network of suppliers is shown at Annex 18. Inditex audits its network of suppliers regularly and ceased using 145 suppliers in 2009 and 175 in 2008 because of their non-compliance.

In 2008, the manufacturing sources in terms of volumes of garments produced for Inditex were as follows : 46% 11% 36% 5% 2% European Union Non -EU Europe Asia Africa Americas D) Logistics All production, regardless of its origin, is received at the logistical centres for each chain, from where it is distributed simultaneously to all the stores worldwide. The distribution takes place twice a week and each delivery always includes new models, so that the stores are constantly refreshing their merchandise and offer.

The logistics system, based on software designed by the company's own teams, means that the time between receiving an order at the distribution centre to the delivery of the goods in the store is on average 24 hours for European stores and a maximum of 48 hours for American or Asian stores. Inditex logistics centres are located in Arteixo (A Coruna), Naron (A Coruna), Zaragoza, Meco (Madrid), Tordera, Palafolls and Sallent de Llobregat (Barcelona), Leon and Elche (Alicante).

Together, their surface area exceeds one million square metres. Further details are shown at Annex 19. In 2008, 700 million garments were distributed by 5000 employees at Inditex logistics centres. E) Stores In Inditex, the point of sale is both the end and start of its value adding processes, as the stores act as market information gathering terminals, providing feedback to the design teams for each of the 8 formats and reporting the trends demanded by customers. As retailers, the stores constitute the chains' main advertising medium.

Their chief characteristics include: - Preferred locations in the world's main shopping streets - Meticulously designed window displays - Unique internal and external store design - Tailored coordination and display of the product - Excellent customer service. The main development strategy for the Inditex sales formats is the opening of stores managed by companies in which Inditex is the sole or majority shareholder. In 2009, 86% of stores were own managed. In smaller or culturally different markets, the Group has extended the store network through franchise agreements with leading local retail companies.

The main characteristic of the Inditex franchise model is the total integration of franchised stores with own managed stores in terms of product, human resources, training, window-dressing, interior design and logistical optimisation. This ensures uniformity in store management criteria and a global image in the eyes of customer around the world. F) Other Aspects of Marketing

- 1) Internet Each of Inditex's 8 store formats has its own website and these are constantly updated with the latest fashion offerings. In 2009, the store websites were launched and included insocial networkingwebsites.
- 2) Affinity card

The Intitex Affinity Card is the Group's payment and loyalty card valid for its holders in any Group establishment: Zara, Massimo Dutti, Bershka, Pull and Bear, Stradivarius, Oysho, Zara Home and Uterque. Available in Spain for more than 15 years, the Affinity Card is also held by customers in Mexico and Greece where it was launched in 2007, and in Portugal where it has been available since 2008. Currently there are more than a million Affinity Card holders in these four countries. All of them have a card that offers financial advantages and methods of payment based on the holders' needs. Inditex Financial Performance

A summary of Inditex's financial performance over the last 6 years is as follows : Details of Inditex's : - P for 2006 to 2009 are shown at Annexes 20-22 - sales and contributions by store format are shown at Annex 23 - balance sheets for 2006 to 2009 at Annexes 24 and 25 - 2006 to 2009 cash flow statements at Annexes 26 and 27. Details of Inditex's 1st Quarter financial results for 2010 are shown at Annexes 28 and 29. Board of Directors Shareholders approved the 2009 report at Inditex's July 2010 Annual General

Meeting including the proposed dividend of €748 million - up 13% on the previous year.

Inditex's share price closed at €51.20 on 29 July 2010 - up 38% on its price of €38 a year ago - see Annex 30. The board of Inditex consisted of 9 Directors as at 31 January 2010 - 3 Executive Directors and 6 Non Executive Directors. The Executive Directors are : Amancio Ortega Gaona (Chairman) Pablo Isla Alvarez de Tajera (CEO and 1st Deputy Chairman. Appointed to board in 2005) - Antonio Abril Abadin (Board Secretary and General Counsel). Their total remuneration was €4.35 million in the year ended 31 January 2010. The senior management of Inditex who are not executive directors is shown at Annex 32.

Their total remuneration was €10.9 million in the year to 31 January 2010. Details of the board including the 6 non executive directors are shown at Annex 31. - Employees Inditex is a multi-cultural and multi-racial company with 92,301 employees at 31 January 2010 representing more than 140 nationalities. On-going training plays an essential role, particularly that of store staff. This training, which also includes basics in customer service, focuses on specialist knowledge of fashion trends and the ability to seize and interpret the information that store staff receive from customers every day.

The number of employees has grown as follows : The largest percentage are employed in the stores as follows : Inditex directly owns 13 textile manufacturing companies in Spain and 12 logistic companies including one for each of its 8 store formats. Inditex also has its own in-house building contractor and several companies to manage its store and other properties. These companies are wholly owned by Inditex and their financial results and <https://assignbuster.com/inditex-case-study/>

employee numbers are fully consolidated in those of the Inditex group. In 2009 : - 81. 4% of Inditex's employees were female - 18. % were male - 40% of employees were full time - 60% were part time. Inditex's Strategy At his presentation at the July 2010 AGM, Inditex's Deputy Chairman and CEO, Pablo Isla underscored confidence in the Inditex business model and its clear strategic focus on international expansion, currently targeted at European and Asian markets. He confirmed that Inditex has earmarked about €570 million in capital expenditure to open between 365 and 425 new stores in its financial year 2010 of which approximately 95% will be in Inditex's international markets outside Spain.

Some 70% of the appropriate contracts have been signed although in some cases openings may be delayed until 2011. The planned increases by store format are as follows: " Our priority is to focus growth in Europe and Asia," said Isla. " We see significant opportunities in Eastern Europe and the Russian Federation, and there is a great potential to expand profitably in Europe for many years, as our market share is below 1% in most countries. " He said the main areas of growth for Asia are China, Japan and South Korea. " We see huge long-term potential for Inditex in Asia markets," he said.

Over the next three years, the company expects to see space growth of between 8% and 10%. Isla was asked earlier by analysts why they aren't paying out an even bigger portion of net income in dividends given the group's huge cash balance. " Our main priority is to invest in the future growth of the business. We always want a high level of flexibility - we always wanted more steady growth in the dividend, rather than big jumps," he said.

He also confirmed that Zara will start online sales in France, Germany, Italy, Portugal, Spain and the UK on 2 September, 2010.

Key Issue to be Consider ed Is Inditex's current strategy likely to succeed . If so why ? Or do you conclude that the strategy needs to be adjusted in light of your analysis of this case study ? If so, what changes do you propose and why ? References : 1) 2) 3) 4) FT article 9 June 2010 Answers. com 2010 Inditex Press dossier 2009 Datamonitor " Apparel retail in Europe" August 2009 . The industry value is calculated at retail selling price (RSP), and includes all taxes and levies. The data for Europe includes Russia, Poland, Czech Republic, Hungary, Romani and Ukraine.

All currency conversions in the Datamonitor report and forecasts have been calculated at constant 2008 annual average exchange rates. 5) European Commission report " Consumers in Europe" 2009 published by Eurostat 6) UK Office for National Statistics January 2010 7) Datamonitor report " Apparel retail in Asia Pacific" August 2009 Shar eholdings of Dir ector s in Inditex as at 31 J anuar y 2010 Annex 1 Annex 2 Annex 3 Page 1 Annex 3 Page 2 Annex 4 Sales Ar ea by Stor e Concept - Squar e Metr es Totals 2, 180, 889 1, 914, 493 EU Expenditur e on Clothes and Footwear - € per head 000 Countr y EU (27 countries) 700 Belgium 700 Bulgaria N/A Czech Republic 200 Denmark 800 Germany 800 Estonia 200 Ireland 900 Greece 600 Spain 600 France 700 Italy 1100 Cyprus 800 Latvia 200 Lithuania 100 Luxembourg1100 Hungary 100 Malta 500 Netherlands 800 Austria 1100 Poland 200 Portugal 600 Romania N/A Slovenia 400 Slovakia 100 Finland 600 Sweden 700 United Kingdom 1000 Memo : Turkey 300 Iceland 1100 Norway 900 Switzerland 900 2006 800 800 N/A 300 N/A 800 400 900 800 700 700

1200 900 N/A 400 1100 200 400 800 1100 200 N/A 100 500 200 800 N/A
 1100 300 1100 N/A 900

Annex 5 Source : " Consumers in Europe" 2009 edition published by Eurostat , the statistical office of the European Commission Price and Volume Changes within Household Expenditure on Clothing and Footwear - EU Average and Selected Countries (a) Annex 6 Germany France Italy UK Spain Poland EU Average (b) Cumulative Percentage Price Increase/(Decrease) 2000-6 (2.6) % 0.1 10.4 (23.5) 13.3 (15.7) 0.1 % Cumulative Percentage Volume Increase/(Decrease) 2000-6 (1.7) % 5.8 (8.3) 44.5 2.7 44.3 5 % Percentage Volume Increase/Decrease) 2006 -7 2007 -8 3.1% 1.7 0.1 2.7 4.5 4.5 2.0% 1.4 (2.1) (2.6) 4.4 (2.5) 11.2 (0.5)% (a) = The 6 countries account for over 70% of total EU population (b)= over the 27 member countries European Market for Womenswear Annex 7 Annex 8 European Market for Menswear European Apparel Market Value Forcasts Annex 9 Page 1 European Apparel Market Value Forcasts Annex 9 Page 2 EU Clothing and Footwear Sources of Purchase 2008 Annex 10

Note that these figures relate to trips made by consumers purchasing clothing and footwear, and they do not reflect the average expenditure or value of sales made in each retail format Customer Complaints - Problems faced by Consumers when Purchasing Clothing or Footwear in the EU in 2008 Percentage share of those experiencing problems (multiple answers allowed) Annex 11 Source: ' Retail satisfaction survey', IPSOS for the European Commission, August/September 2008 USA Clothing and Footwear Market Annex 12 Annex 13

USA Market - Consumer Price Index Changes Annex 14 Summary Financial Profiles of Selected Apparel Retailers H - 1738 stores in 33 countries as at November 2008 Levi Strauss Gap Latest results for Gap for its financial year ended 31 January 2010 ("Fiscal Year 2009") are shown in next annex. At average 2009 calendar year exchange rates of US \$ 1.3948 = €1, Gap's net sales totalled € 10,179 million in 2009 - some €900 million lower than Inditex's sales of €11,083 million for the same period ended 31 January 2010.

January 2010 average exchange rate was US\$ 1.4272 = €1 Exchange rate source : Banque de France Annex 15 Source : The Gap Inc. annual report and accounts Annex 16 Number of stores : 191 Number of stores opened in year : 12 - 5 in Spain -4 in the UK - 1 in each of Netherlands, Germany and Portugal (first Primark stores in each country) Planned store openings in next year : 11 (including first store in Belgium) Selling space : 5.9 million square feet - an increase of 9% versus prior year Primark - Key Data for Year Ended 12 September 2009

Revenue for year : ? 2314 million (? 1933 m in prior year) Year on year sales growth : 20 % - partly increase in selling space - partly like-for-like sales growth of 7% Operating profit for year : ? 252 million (? 233 million in prior year) Source : ABF annual report and accounts Annex 17 Current Prospects for Uniqlo's parent "Fast Retailing" Tadashi Yanai - the president of Fast Retailing, Japan's wealthiest man (net worth \$9.2bn), has seen the value of his 27 per cent holding in the Uniqlo parent fall by more than a quarter this year.

That's a slump three times worse than the benchmark, making Asia's biggest clothier the worst-performing retailer across the region. Having watched new lines like polo shirts and jeans fail to fly off the shelves, even after steep price cuts, Yanai-san is now betting big on camisoles, leggings and Silky Dry, a summer version of its blockbuster heat-trapping underwear. This is no ordinary lean spell sales growth slowed the most in four years in the three months to May, causing Fast Retailing to trim its net income estimate for the year ending August by 5 per cent.

Nimbler rivals such as United Arrows (up 22 per cent since the beginning of the year) and Honeys (+143 per cent), both between 30-40 times smaller by market capitalisation, will want to ensure Uniqlo's discounting continues. For all its determination to build overseas - this year it added stores in China and Russia to its UK, US, France and South Korean portfolios - the company is on course to get 95 per cent of this year's operating income from anaemic Japan. It remains a hard stock to divest, though.

Not only are Fast Retailing's returns on invested capital consistently about 50 per cent better than peers', it is that rare thing in Japan: a stock worth a fifth more today than it was ten years ago (over which period the Nikkei has shed more than two-fifths). BACKGROUND NEWS Japan's Fast Retailing on Thursday cut its annual outlook for the first time in three years after the breakneck pace of growth at its Uniqlo budget fashion chain came screeching to a halt in recent months, reports Reuters.

Fast Retailing enjoyed strong sales last year even as other retailers were hit by weak consumer spending, attracting thrifty shoppers with hit products like heat-trapping underwear and savvy marketing. But Uniqlo's same-store <https://assignbuster.com/inditex-case-study/>

sales have been on the decline in the second half of the current financial year to August 31st, which some analysts see as a sign that the recent round of robust growth has run its course. Source - FT article Published: July 8 2010

Annex 18 Details of Inditex Suppliers Key supplier countries include Bangladesh, India, Turkey, Morocco, Spain, Portugal and Cambodia (Source : 2008 annual report)

Annex 19 Inditex Logistics Centres in 2009 Inditex Profit and Loss Account for Financial Years 2009 and 2008 Annex 20 Notes refer to details in Inditex annual report for 2009 - see Inditex.com/investor-relations/annual-reports/2009 Operating Expenses consisted of 2009 - €m 2008 - €m 2007- €m 2006- €m Staff costs 1, 791 1, 703 1, 473 1, 251 Store property 1, 134 1, 028 855 718 rental costs Other Store 1, 027 976 898 831 operating costs, logistics and general overhead costs a) 3, 953 3, 708 3, 226 2, 800 a) = Including transportation of merchandise from logistic centres to stores Annex 21

Details of " Financial Results" shown in Inditex P& L " Financial Results" shown in the consolidated P& L consist of (€000) : And for 2007 and 2006 : Inditex Profit and Loss Account for Financial Years 2007 and 2006 (in €000s) Annex 22 Net Sales Cost of merchandise Gross Profit Operating Expenses Other net operating expenses & income Operating Profit (EBITDA) Amortization and Depreciation Operating Profit (EBIT) Financial Results Equity Accounting Losses Income Before Taxes Income Tax Net Income Net income attributable to minority interests Net Income Attributable to the Parent

Earnings per share (€cents) Notes refer to details in Inditex annual report for 2007 - see [Inditex.com/investor relations/annual reports/2007](http://Inditex.com/investor%20relations/annual%20reports/2007). Details of Operating Expenses and " Financial Results" are shown in earlier annexes

Sales and Profit Contributions by Store Format	2007	2008	2009	Totals
No. of Stores at 31 Jan 2010	1608	626	497	651
Net Sales in Financial Year 2009 €m	7077	771	790	1177
Annex 23	Zara (incl Zara Kids)	Pull and Bear	Massimo Dutti	Bershka
	Stradivarius	Oysho	Zara Home	Uterque
	Totals			

Operating Profit EBIT in 2009 €m	2009	2008	2007	Totals
Store Format No. of Stores at 31 Jan 2009	1520	583	470	591
No. of Stores at 31 Jan 2008	1361	519	426	510
Net Sales in Financial Year 2008 €m	6824	720	722	1026
Net Sales in Financial Year 2007 €m	6264	614	696	925
Operating Profit EBIT in 2008 €m	1067	119	108	155
Operating Profit EBIT in 2007 €m	99	106	154	119
	40	16	0	1625

Zara (incl Zara Kids) Pull and Bear Massimo Dutti Bershka Stradivarius Oysho Zara Home Uterque Totals Inditex Balance Sheets for Financial Year s 2009 and 2008 Annex 24 Notes refer to details in Inditex annual report for 2009. The share capital of Inditex amounts to €93. 5 million divided into 623. 3 million shares each with a par value of 15 Eurocents - fully subscribed and paid - at 31 January 2010 . This has remained unchanged since Inditex's financial year 2006 Inditex Balance Sheets for Financial Year s 2007 and 2006

Annex 25 Notes refer to details in Inditex annual report for 2007 Inditex Cash Flow Statements for 2009 and 2008 Annex 26 Annex 27 Inditex Cash Flow Statements for 2007 and 2006 Inditex Group P&L for 1st Quarters 2010 and 2009 Annex 28 Annex 29 Inditex Group Balance Sheet for 1st Quarters Ending 30 April 2010 and 2009 Inditex Share Price from August 2009 to July 2010 Annex 30 Source : Inditex. com/ Investor Relations Annex 31 Board of Directors of Inditex as at 31 January 2010

The 6 Non Executive Directors are : - Flora Perez Marcote (representing Gartler S. L. , the holding company controlled by Mr Ortega Gaona and owning just over 50% of Inditex's shares) - Carlos Espinosa de los Monteros Bernaldo de Quiros (board member from 1997) - Francisco Luzon Lopez (board member from 1997) - Irene Ruth Miller (board member from 2001) - Juan Manuel Urgoiti Lopex de Ocana (board member from 1993) - Jose Luis Varquez Marino (board member from 2005) Senior Management of Inditex as at 31 January 2010 Annex 32