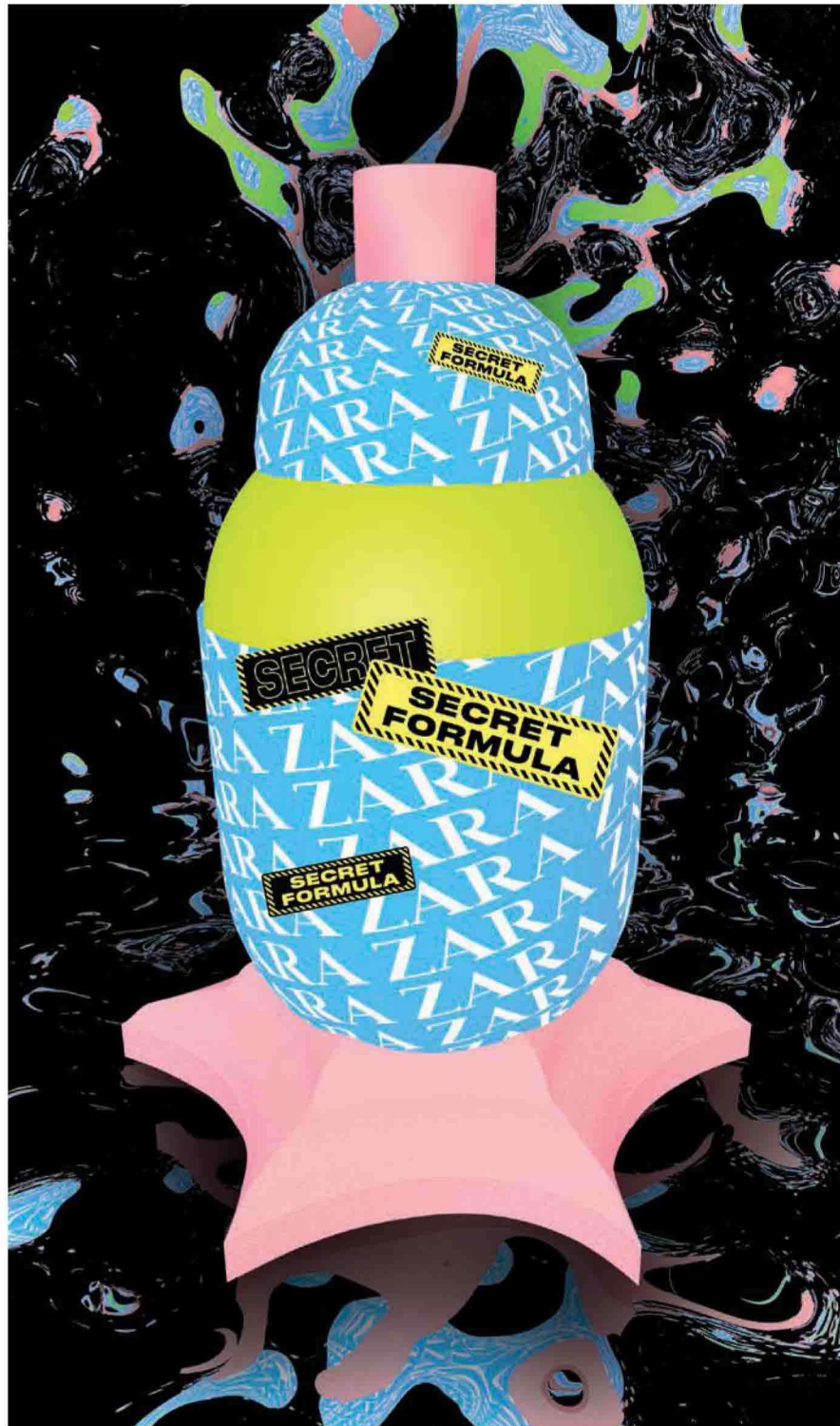


Companies/ Industries

Zara designers at work
in Arteixo, Spain

November 28 – December 4, 2016



Deep inside a sprawling glass-and-cement edifice the size of an airplane hangar in the Spanish town of Arteixo, 10 designers swarm around a model dressed in cropped gray trousers and a double-breasted navy blazer. Sweaters, shirts, and suits are spread out on the white-tile floor, while seamstresses in white labcoats stitch prototypes nearby. “It’s classic, but it’s new at the same time,” says a woman from China. “I’m not sure about the bold patterns,” counters a British woman, dressed in white sneakers and a flowing skirt. Others nod their assent or express doubt.

This international tribe of thirty-somethings is a big part of the success of Zara, the brand that over the past four decades has grown from a single store in the Spanish city of La Coruña into the biggest fashion retailer on earth. As the team debates whether the collection is too plain or too daring, it becomes clear no one is in charge. Juan Mendivil, a menswear buyer, fields opinions, but the decision doesn’t rest with him, and everyone has a say. They finally agree on solid colors and traditional cuts for Europe and bold patterns for China, where sales data indicate such styles are popular.

Unlike rivals such as **Gap**, **H&M**, and **Primark**, Zara has no chief designer, and there’s little discernible hierarchy. Its 350 designers are given unparalleled independence in approving products and campaigns, shipping fresh styles to stores twice a week. Guided by daily data feeds showing what’s selling and what’s stalling, the teams develop fashions for the coming weeks. Every morning, staff in Arteixo divine what’s popular by monitoring sales figures and thousands of comments from customers, store managers, and country directors in cities as far-flung as Taipei, Moscow, and New York.

Zara’s culture isn’t as easily copied as the latest fashion trends, and that partly explains why **Inditex**, its parent company, is a breakaway success while most global clothing retailers are struggling. **American Apparel** filed for bankruptcy in November for a second time, sales have fallen at Gap stores, and profit is down at H&M. In contrast, Inditex powered ahead with an

► The world’s biggest fashion retailer is thriving as rivals falter

► “Everyone...is trying to replicate its design prowess”



11 percent rise in revenue in the first half of the year. “There isn’t a magic formula,” says Pablo Isla, Inditex’s chairman and chief executive officer. “There are no stars. We are able to react to data during the season, but in the end, what we offer our customers is fashion, and there’s a human element to that.”

Controlled by Spanish billionaire Amancio Ortega, who this year briefly surpassed Bill Gates to become the world’s richest man before falling back to second place, Inditex posted €20.9 billion (\$22.2 billion) in sales last year, from 7,100 stores in 93 countries. Other Inditex brands such as Bershka, Massimo Dutti, and Pull & Bear are growing, but Zara still accounts for two-thirds of sales. Ortega hired Isla, a bespectacled former Banco Popular Español executive, as CEO in 2005, but he hasn’t retired. At 80, he still comes to work most days, often sitting in the Zara women’s department, where his 32-year-old daughter Marta works on the commercial team after a stint at Bershka. While he can sometimes be seen walking his dog Pepe in the town square of nearby La Coruña, Ortega remains one of the world’s most secretive billionaires, leaving Isla to oversee Inditex.

One concern for Zara is managing its growth, says Andy Hughes, a retail analyst at UBS. With Inditex’s sales almost doubling since 2009, Isla is adding stores at a slower pace, concentrating instead on a smaller number of flagship locations and its online business. Another concern is that rivals might figure out how to match

Zara’s quick turnarounds. “Everyone in the industry is trying to replicate its design prowess,” Hughes says. “No one could match Inditex, but the gap might close.”

Isla rejects the fast-fashion label for Zara, saying it doesn’t reflect the time and detail that goes into designing each garment. And he says analysts place too much emphasis on Inditex’s much-vaunted supply chain, a network of factories in Spain, Portugal, and Morocco that produces 60 percent of its merchandise. With production nearby, Inditex can quickly switch gears if weather or fashion trends change, getting designs into stores in as little as two or three weeks, while rivals’ orders slowly make their way across the ocean on container ships.



designers. “Without the design, there would be nothing,” Isla says, sitting at a pale-wood conference table in the company’s minimalist headquarters. “It’s not a formula.”

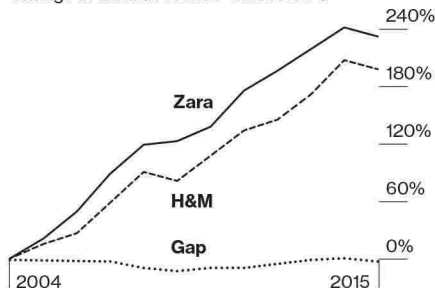
This means the designers are constantly tinkering. When military jackets turned out to be big sellers this autumn, the commercial team asked the designers to keep tweaking them with new fabrics and cuts. In May, a blue-and-white collarless women’s coat for £69.99 (about \$102 at the time) generated so much buzz that two fans created an Instagram account—@thatcoat—to document the craze. But instead of churning out more identical coats, design teams came up with different fabrics and prints using a similar cut, ranging in price from \$69 to \$189.

“The root of Inditex’s success is its predominantly short lead time, which gives a greater level of newness to its collections,” says Anne Critchlow, a retail analyst at Société Générale.

About two-thirds of Inditex’s products are generated under short lead times, vs. 20 percent for most retailers, she says. Small production

Fast Fashion, Speedy Growth

Change in annual revenue* since 2004



◀ runs mean Zara can test designs in various markets without building up unwanted stock that it might need to unload at a deep discount. That gives Inditex among the lowest yearend inventories in the industry, says Richard Hyman, an independent analyst in London. “This is a business that really breaks the rules,” Hyman says. “They don’t really have seasons in the way a normal fashion retailer would.” —Stephanie Baker

The bottom line A unique management formula may be why Inditex’s revenue growth—up 11 percent in the first half of 2016—far outpaces its rivals’.