

INDITEX STRATEGY REPORT



BRIDGES
CONSULTING

JESSICA VINCENT

PHILLIP KANTOR

DANIEL GELLER

APRIL 19, 2013



CONTENTS

Executive Summary	3
Company Background	4
Business Model.....	5
Retail Subsidiaries.....	6
Company Background	8
Financial Analysis	11
Profitability & Shareholder Returns	11
Revenues	11
Costs	12
Growth.....	12
Liquidity & Solvency.....	13
Stock Performance	14
Competitive Analysis (Five Forces Framework)	16
Market Definition.....	17
Internal Rivalry.....	17
Entry.....	20
Supplier Power	21
Buyer Power	22
Substitutes & Complements	23
SWOT Analysis	23
Strengths.....	23
Weaknesses	26
Opportunities	27
Threats	29
Strategic Recommendations.....	32
Sources	43



EXECUTIVE SUMMARY

Industria de Diseño Textil S.A., also known as The Inditex Group, is the world's leading and fastest growing fashion producer and retailer, headquartered in Arteixo, Spain. The Inditex Group is made up of more than 100 companies operating in textile design, manufacturing, and distribution, and is responsible for producing 840 million garments a year, with eight retail store formats: Bershka, Massimo Dutti, Oysho, Pull & Bear, Stradivarius, Uterqüe, Zara, and Zara Home. These retail formats collectively occupy 6,009 stores in 86 markets.

Inditex faces competition from companies such as H&M and Benetton, but is set apart by its unique business model. Inditex controls the entire fashion process as well as retail. In the variable and fast changing fashion world, Inditex prioritizes time-to-market through vertical integration, making them the pioneer of “fast fashion.” Competitors traditionally prioritize production cost and outsource manufacturing to China. This strategy is cheap but creates a long supply chain. Inditex, on the other hand, sources more than half of its products from Spain, Portugal and Morocco, creating a short, manageable, and more responsive supply chain. Despite the higher costs, in the fashion world the ability to react quickly is key. Other companies must predict trends, while Inditex can observe and respond. Inditex's computerized inventory system, state-of-the-art production and warehousing, and a short supply chain cut lead-time to 10-15 days between design and distribution, compared to the 5-6 month industry average.

Zara, Inditex's flagship retail format, generated 66% of the company's overall sales in 2012. Currently, Europe accounts for 66% of group sales, though sales in Spain accounting for 22% of revenue have stalled due to the poor economy, causing the company to aggressively seek new markets. Inditex has doubled its store count from 3,000 to 6,000 since 2007 as it expanded its store space by between 8% and 10% a year. Recently Inditex has opened more than a store a day, or about 500 stores a year. It is reported that this growth rate is to be maintained for the next three to five years, with an emphasis in Asia.¹ Sales also benefited from a global rollout of online stores, starting with Zara Home in 2007 and each additional retail format in 2010. Zara is the most prominent online concept currently receiving more than 1.3 million unique visitors per day.² Though Inditex has yet to provide more information about online sales, Credit Suisse estimates online purchases will generate over \$782.5 million by the end of 2013, almost doubling 2012 levels.³



Inditex is an extremely healthy company with strong financials allowing continued self-funded expansion. Net sales for Inditex reached \$20.75 billion in fiscal 2012, an increase of 16% from 2011.⁴ However, as competitors continue to mature and Inditex's rapid expansion begins to pose new challenges due to varied global consumer demand and increased distribution needs, we recommend the following strategies that will allow Inditex to continue to grow, increase sales, and maintain its global market share and position:

- **Continued Global Expansion:** Inditex can sustain 6% to 9% growth for the next 10 years, and has ample opportunity to do so in Asia, Eastern Europe, and Latin America. Wide-scale expansion into the American market would require Inditex to produce plus size clothing, which would complicate production processes and deviate from its brand image, and is not advisable at this time. As the company continues to expand outside of Europe, it will need to expand its business model based on proximity sourcing by developing logistics, design, and distribution centers in Asia and potentially the Americas as well.
- **Continued Online Retail Expansion and Development:** Online consumer purchases are predicted to increase drastically in the next several years, making online ecommerce presence imperative to Inditex's continued success. Zara is the brand's most developed online store, but is still only available in 21 countries. Expanding and optimizing the websites and social media platforms of all retail formats will increase company sales, allow Inditex to draw customers without access to brick-and-mortar stores, and capture valuable consumer data with which to make future decisions. It is also recommended that Inditex begin to leverage search engine optimization and search engine marketing techniques in order to gain new customers on the web.
- **Expansion of Massimo Dutti:** Buying trends and customer demands are highly volatile within the apparel retail industry. Inditex currently relies on Zara for two-thirds of overall sales, leaving it vulnerable if consumer trends shift away from fast fashion demand. Massimo Dutti is the group's most upscale retail format, offering a slightly differentiated value proposition than Inditex's other fashion brands. By expanding the presence of the Massimo Dutti concept, Inditex will both strengthen its brand portfolio and hedge against changing consumer demand by capturing a greater percentage of the higher-end market.



BUSINESS MODEL



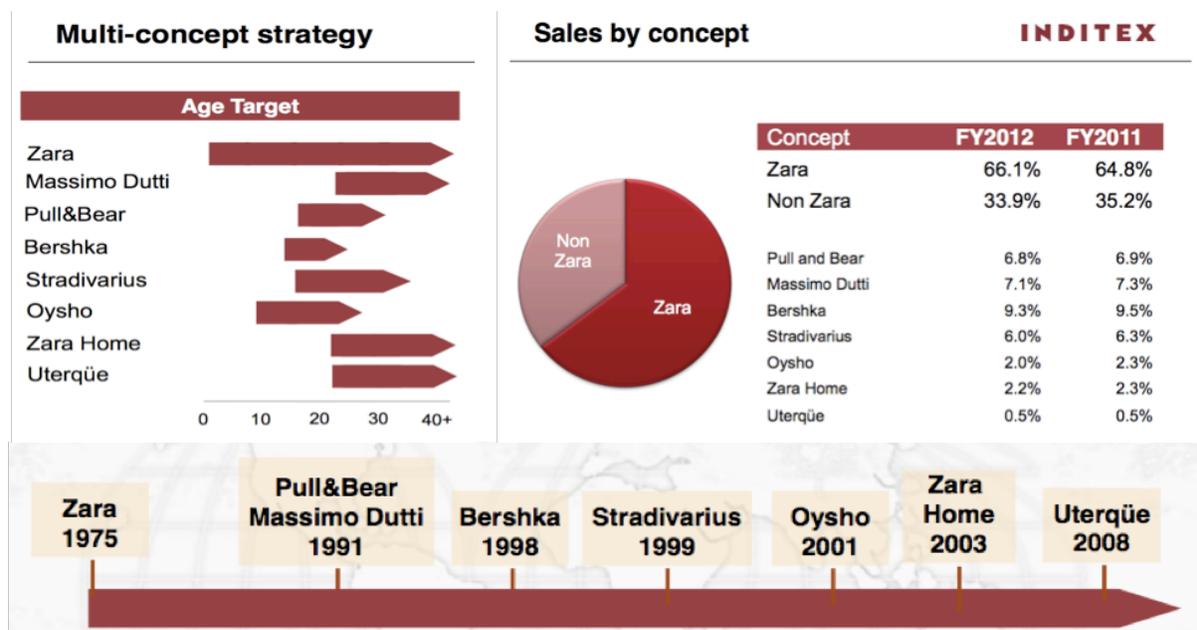
Source: Own Creation via Morgan Stanley

Inditex's success is based upon its refined and fast supply chain responsible for providing its eight retail formats with a high turnover of fashionable clothing and accessories at affordable prices and in low quantities. Through this process, Inditex avoids large inventory and risk, and promotes frequent buying. The fashion items found in most of Inditex's retail formats are highly imitative of designer styles, which Inditex scouts on runways in Paris and Milan and in high-fashion catalogs. Inditex does not employ well-known designers but instead draws from a team of 300 to come up with products that mirror these trends in more affordable fabric, which it manufactures through a partially vertically integrated process that occurs largely in close proximity to headquarters. Franchising is not a part of Inditex's overall corporate strategy, and it is only utilized in markets with strict foreign regulations. The company currently owns 88% of its retail stores. Inditex is also unique in that it has no advertising budget. While Gap, H&M, and the industry spend 5, 4, and 3.5 percent of revenues on advertising respectively, Inditex only spends 0.3%.⁵ Instead, Inditex relies on prime storefronts in chic locations and lets this strategy do the signaling to customers, supporting a high-end image despite their lower price point. Although Inditex typically leases its stores to maintain flexibility in possible future relocations, it owns more than 220 freeholds. Over the past year and a half, Inditex bought stores on 5th Avenue in New York for \$325 million, on Corso Vittorio in Milan for \$135 million, and on Oxford Street in London for \$235 million. As of January 2012 the carrying value of the group's land and buildings was \$1,458 million, though they have never been revalued and the market value is likely to be higher since most were acquired years ago.⁶



RETAIL SUBSIDIARIES

The Inditex corporate strategy is to provide general back-office support to its retail concepts, and assist with international expansion and new concepts in existing markets. Each retail format capitalizes on the fast fashion model, while every concept is managed independently and has control over its own design, purchasing, and logistics. Each of Inditex's eight retail brands targets a different customer demographic. This segmented marketing approach allows Inditex to capture a larger share of the consumer market, while each individual format can specialize. The store offerings and décor of each brand vary, and are tailored to appeal to different age groups and styles.



Source: Grupo Inditex Growth Opportunities Presentation

Zara

Zara is the foundation of Inditex's success as well as their first retail format established in 1975. This brand generates about two-thirds of group sales by offering highly imitative fashion trends at affordable prices. Zara's core consumers are 20-45 year old women, though they also have kids and menswear offerings. Zara is the group's most geographically diverse retail concept with 80% of its full line stores located outside of Spain.⁷ Rather than advertising, Zara relies on chic locations and light, airy, Prada inspired store layouts and shop-window displays.⁸ Today, there are 1,721 Zara stores in 86 countries. Zara's online retail format launched in 2010, and is now available in 21 countries, covering most of Europe, Japan, China, and the United States, and will continue to be rolled out in smaller markets.⁹



Pull & Bear

Inditex launched the Pull & Bear retail format in 1991, focusing on young urban fashion. The concept also occupies prime high-street shopping locations, though its average store size is typically smaller than Zara. Pull & Bear targets young men and women from teens to early 20's, and offers the most casual clothing of Inditex's formats targeting this age group. The company has grown the brand into 816 stores in 59 countries.¹⁰

Massimo Dutti

Inditex first acquired 65% of Massimo Dutti in 1991, and gained full ownership in 1995. Massimo Dutti offers more tailored, sophisticated clothing that targets men and women in their mid-20's and higher. This brand occupies smaller prime retail locations, and is the group's most upscale format with a strong emphasis on design and quality fabrics. Despite its comparatively higher price point, the Massimo Dutti concept adheres to the same flexible distribution model as the other Inditex brands, and now has 630 stores in 60 countries.¹¹

Berksha

Inditex launched the Berksha brand in 1998 to target their youngest demographic of consumers, age 13-25. Berksha has a strong international presence with 67% of stores located outside of Spain (ms). Today there are 885 Berksha stores in 62 countries.¹²

Stradivarius

In 1999 Inditex acquired the youth fashion chain Stradivarius with a presence in nine countries. As a part of Inditex, there are now 780 Stradivarius stores in 52 countries, occupying high-street or mall locations. Stradivarius offers only women's clothing and its core consumers are between 16 and 30 years of age. Though they target a similar age demographic, Stradivarius' product lines are more focused on cutting-edge design than those of Pull & Bear.¹³

Oysho

Inditex opened their lingerie and loungewear retail format "Oysho" in 2001, now with 524 stores in 35 countries. Oysho has slowly started to also offer casual outerwear, accessories, and sportswear.¹⁴



Zara Home

In 2003 Inditex made its first move outside of fashion retail when it launched Zara Home. Zara Home sells constantly updated home décor and linen reflecting the latest trends in 357 stores in 35 countries.¹⁵ Inditex's intention was to capitalize on its existing flexible sourcing model to introduce more "fashion" into a traditionally slower moving market. Stores are laid out such that different areas display different themes rather than different product categories, making shopping more about a complete vision of trends and styles.¹⁶

Uterqüe

The company's latest retail format was launched in 2008 and is a reasonably upmarket and fashionable accessories chain. Uterqüe occupies 92 stores in 18 countries with chic and stylish layouts, and offers fashion accessories, leather goods, handbags, shoes, and costume jewellery at affordable prices.¹⁷

COMPANY BACKGROUND

Industria de Diseño founder, Amancio Ortega Gaona, first began working in the fashion business in 1949 at the age of 13. He started as a delivery boy for a local shirtmaker in La Coruña, Spain and in a little over a decade was working as shop manager. With the knowledge and experience gained along the way, he began developing his own designs, after which he left his job to start his own business in the early 1960s. With only \$25 in start up capital and working out of his sister's home, Ortega's vision was to replicate popular fashions using affordable materials, creating high demand clothing that could be sold at lower prices. He sold his gowns, housecoats, and lingerie to his former employer and other local shops. By 1963 he had opened his first factory, and by the early 1970s began dabbling in retail. It was in 1975 that Ortega opened the first Zara store, the foundation of his success story. He incorporated the business the following year under the name Goasam as more Zara stores opened in Spain.¹⁸

The clothing industry typically has long lead times, often with up to six months between design and delivery to retailers, limiting designers to two or three annual collections and creating risk that trends will have changed in the meantime. Ortega wished to create a different model that



allowed for “instant fashions,” which led to his partnership with José Maria Castellano, formerly the CFO for a Spanish subsidiary of ConAgra in 1984. Castellano’s computer expertise was the key to realizing Ortega’s goal, with which he created a computerized system that reduced design to distribution time to 10-15 days, allowing the company to be highly responsive to trends. State-of-the-art production and warehousing procedures, along with computerized inventory systems that link stores to factories, allowed the company to avoid the risk and capital outlay associated with maintaining a large inventory stock. Further aiding the company’s ability to produce fast fashions is its team of inhouse designers, of which there are now 300, creating a larger pool of creativity and trendy designs to draw from.

In 1985 the company adopted the name Industria de Diseño Textil S.A and had by that point opened 80 Zara stores in Spain. They found that the renewal of inventory every two weeks not only minimized risk, but also encouraged customers to return to their stores more often and make purchases more quickly. The concept of “instant fashion” was so new and innovative that the delivery day for new collections was referred to as “Z-day” in some markets.

This success in Spain led Inditex to expand internationally, starting with a store in Oporto, Portugal in 1988. The company opened stores in the United States in 1989, but the differences in the consumer market delayed success there, and there were only six Zara stores in the U.S by the early 2000s. Zara did, however, find great success in France beginning in 1990, after which they continued expansion throughout the decade. Zara opened in Mexico in 1992, Greece in 1993, Belgium and Sweden in 1994, Malta in 1995, and Cyprus in 1996. The pace of expansion quickened in the second half of the decade, with stores opening in Israel, Norway, Turkey, and Japan in 1997, Argentina, the United Kingdom, and Venezuela in 1998, and by 2000 they had added stores in more than a dozen other countries, such as Germany, Poland, and the Netherlands. The majority of the newly opened stores were company owned, though in markets such as the Middle East where corporate properties cannot be foreign-owned, Inditex struck franchise agreements with local distributors beginning in 1998. Today, there are 1,721 Zara stores in 87 countries. In 2011/12, 12% of group stores were franchised, generating 14% of sales.¹⁹

During this initial period of rapid expansion, Inditex also began diversifying its retail outlets, launching a Zara subgroup of children’s clothing “Kiddy’s Class” in 1990. In 1991 Inditex opened



the entirely separate retail entity “Pull & Bear” (“Often,” an offshoot of Pull & Bear that targets men age 20-45, was opened in 2003). Also in 1991, Inditex purchased 65% of the Massimo Dutti group and eventually the entire company in 1995. In 1998 Inditex created a new retail format, “Berksha,” and in 1999 acquired the youth fashion chain Stradivarius. Inditex opened their lingerie retail format “Oysho” in 2001, and “Zara Home” followed in 2003 as the company’s first foray outside the world of clothing. The company’s latest retailer, “Uterqüe,” was launched in 2008.

Throughout the success of the company, Mr. Ortega remained reclusive and behind the scenes (no pictures were released of Ortega until 2001), while heavily involved in product decisions and serving as a muse for innovation. New corporate headquarters were moved to Arteixo in 2000 and construction of a new state-of-the-art logistics center began in Zaragoza in 2002. However, as Mr. Ortega approached retirement, Inditex looked to the public market to secure its future. On May 23rd, 2001, an initial public offering of 26% of Inditex shares was listed on the Bolsa de Madrid in one of the most successful IPOs that year. At that time, Ortega sold 20% of his holdings making him the richest man in Spain. Following the IPO, Inditex continued to outperform weak equity markets. However, due to a steep devaluation of the Mexican peso and strikes in Venezuela, Inditex’s Q4 results fell short of market expectations in March, 2003. This underperformance subsequently caused a significant drop in the Inditex share price. The following year, an unseasonably mild winter led to industry-wide markdowns and disappointing sales, causing Inditex to again fall short of expectations. This led to a 300bps contraction in the company’s EBITA margin for 2003/04. However, sales growth and gross margin recovered in 2004/05 and the company’s problems proved temporary.²⁰

Pablo Isla Alvarez de Tejera, Ortega’s handpicked successor, was appointed CEO in 2005 and took over this role quite seamlessly. Isla, formerly a lawyer, is strongly involved with the company’s finances and costs. His first promise as CEO was to reduce the group’s business risk by better aligning sales and operating cost growth. Referred to as “Reduce 3,” his plan aimed to reduce the spread between sales and operating cost growth by 300bps by 2008/09, and was achieved one year ahead of plan (ms). Mr. Isla was heavily involved in the creation of Zara’s global online-commerce platform. While Zara Home was the first concept to have a transactional website launched in 2007, the first online Zara store was launched in 2010, and by year’s end was available in 16 countries. The company has not released specific financial data for this sector of their business



but reports that the online stores are thriving. The Zara brand is now present online in 21 countries including China, where it launched in September, 2012. Ortega, who stepped down as chairman in 2011 is not completely removed from his enterprise though, and is still involved in the product side of the business. Mr. Ortega still owns 59% of Inditex, and the particular success of the company in 2012 caused him to edge out Warren Buffet as the third richest person in the world.

FINANCIAL ANALYSIS

Profitability & Shareholder Returns

Inditex has been tremendously successful since its initial public offering in 2001, as sales have quadrupled from that time. Inditex's profit growth stagnated at an EBITDA of roughly €2.15 billion in both fiscal 2007 and 2008, which can be considered a strong performance considering the financial crisis of 2008. In fiscal 2009, they began to grow again with a 10% increase in EBITDA to €2.4 billion. Since then, profits have consistently risen through fiscal 2012, in which Inditex posted an EBITDA of €3.9 billion, a 77% increase over the 5 year period. From fiscal 2011 to 2012, Inditex went from an EBITDA of €3.3 to €3.9 billion, a 20% increase overall. Meanwhile, main competitor H&M's EBITDA increased by 9% over the same span. Gross profit rose to €9.5 billion in fiscal 2012, which was 16% higher than in 2011. The Gross margin reached 59.8% of sales, and increase from 59.3% in fiscal 2011.²¹

Revenues

Net sales for Inditex reached €15.9 billion in fiscal 2012, an increase of 16% from fiscal 2011. Net sales by concept are shown in the table below:

Concept	2012	2011	Chg % 12/11
Zara	10,541	8,938	18%
Pull&Bear	1,086	957	13%
Massimo Dutti	1,134	1,013	12%
Bershka	1,485	1,316	13%
Stradivarius	961	871	10%
Oysho	314	313	1%
Zara Home	350	317	10%
Uterqüe	74	68	9%
Total	15,946	13,793	16%

Source - Inditex Quarterly Results



Furthermore, the company is expanding globally. While 66% of their sales remain in Europe (22% in Spain) for fiscal 2012, 70% of their sales were in Europe last year (25% in Spain). The Americas have increased their share from 12% to 14%, while Asia & ROW has gone from 18% to 20% from fiscal 2011 to 2012. In 2012, online sales channels were also launched in Poland and China. The number of employees has risen to 120,134 at fiscal year end 2012 from 109,512 at the end of 2011.

Costs

Operating expenses have grown by 14% over the year, to €5.6 billion for fiscal 2012. This increase is largely a result of growth in sales and their rapid expansion in retail space, and includes all start-up costs. Inditex's largest costs are personnel expenses, comprising €2.55 billion. Both rental costs and other operating expenses each total roughly €1.53 billion, bringing the total to €5.6 billion. The cost of materials was €6.4 billion in fiscal 2012.

One of the key cost saving arenas for Inditex is advertising. Compared to an industry average of five to six percent, Inditex spends less than 0.3% of sales revenue on advertising. Because Inditex has such a quick product output, two weeks compared to an industry average of six months, they can exploit the marketing campaigns of high fashion retailers. Moreover, their prime locations reduce the need for advertising.¹⁵

Growth

Space growth, a measure of the growth of the space occupied by stores worldwide, was 11.4% for Inditex in fiscal 2012, reaching a total of 6,009 stores in 86 markets, including entry into five new countries: Georgia, Bosnia, Ecuador, Armenia, and the former Yugoslav Republic of Macedonia.

Square metres	31 Jan 2013	31 Jan 2012	Chg % 12/11
Zara	2,009,717	1,824,753	10%
Pull & Bear	254,413	223,687	14%
Massimo Dutti	172,095	152,614	13%
Bershka	338,450	300,351	13%
Stradivarius	206,584	178,231	16%
Oysho	74,669	68,261	9%
Zara Home	93,166	79,001	18%
Uterqüe	12,354	12,082	2%
Total	3,161,448	2,838,980	11%

Source - Inditex Quarterly Results



Concept	Net openings	Total stores	
	2012	31 Jan 2013	31 Jan 2012
Zara	120	1,751	1,631
Zara Kids	(25)	174	199
Pull & Bear	69	816	747
Massimo Dutti	57	630	573
Bershka	74	885	811
Stradivarius	96	780	684
Oysho	41	524	483
Zara Home	47	357	310
Uterqüe	3	92	89
Total	482	6,009	5,527

Source - Inditex Quarterly Results

Liquidity & Solvency

Opening more than a store per day last year, Inditex is growing rapidly. Expansion for 2013 is expected to continue, as Inditex predicts the openings of 440 – 480 new stores. Such an extensive growth project proves certain financial metrics increasingly important: namely the current ratio, total debt/equity, and cash flow.

Inditex has a current ratio of 1.92, which is much stronger than the industry average of 1.27. This means that Inditex currently has almost twice as much liquid assets as liabilities, which should serve it well as it continues to grow and should prevent insolvency during periods of slower growth.

Total debt/equity measures a company's total liabilities divided by stockholders' equity, indicating what proportion of equity and debt the company is using to finance assets and growth. Inditex has a total debt/equity ratio of 0.1 percent, meaning that almost all growth is coming from company profits, rather than debt. This is an astonishingly low figure for a company growing as fast as Inditex, and indicates that the company can afford to expand without risking indigestible levels of debt.

Cash flow can be an indication of a company's financial health, measuring cash inflows from operations, investments, and financing and subtracting cash outflows of expenses or investments. Inditex had a positive cash flow of €3.2 billion in 2012, up €600 million from 2011. Given their investments in expansion, to come out cash flow positive at all is a good sign, let alone €3.2 billion



in the black. Their price to cash flow (TTM) ratio stands at 19.93, well above the industry average of 8.21, which is again remarkable given their tremendous growth in 2012.

Inditex currently has €6.7 billion in current assets and €6.2 billion in non current assets, totaling roughly €12.9 billion in assets. They are cash flow positive at roughly €3.8 billion by the end of fiscal 2012. Current liabilities total €3.5 billion, while shareholder's equity totals €8.5 billion for fiscal 2012.

Return on capital employed is 39% for fiscal 2012, up 2% from the previous year. The table below lists the return on capital employed by concept:

Concept	2012	2011
Zara	37%	32%
Pull&Bear	57%	50%
Massimo Dutti	42%	79%
Bershka	51%	38%
Stradivarius	57%	64%
Oysho	21%	29%
Zara Home	38%	40%
Uterqüe	-	-
Total	39%	37%

Source - Inditex Quarterly Results

Meanwhile, the return on equity is 30% for fiscal 2012, up 2% from the previous year. Shareholders equity went from €7.4 billion at the beginning of fiscal 2012 to €8.4 billion at the end of fiscal 2012. Return on assets is at 16.34%.

Stock Performance

Inditex stock has performed tremendously well over the past five years, but has taken a dip in the past six months. XRT, Standard and Poor's retail index, has helped carry the overall stock market the past five years. In the past year, Inditex has consistently grown faster than the XRT index. However, in the past couple of months, their stock growth has fallen below the retail index and the S&P 500. This could have resulted from a slight underperformance in gross margin rates in 2012 or from a slower European economy in general. Inditex's main competitor, H&M, saw much harder hits during the same span.



Price	100.65 EUR
52 Wk range	EUR 65.02 – 109.30
P/E Ratio	25.4
Price/Sales	3.8
Price/Book	7.1
Price/Cash Flow	19
TEV/Sales	3.5
Current Ratio	2.14
Quick Ratio	1.95
Total Debt/Equity	0.1

Source – Investing.BusinessWeek.com

6 Months



1 Year



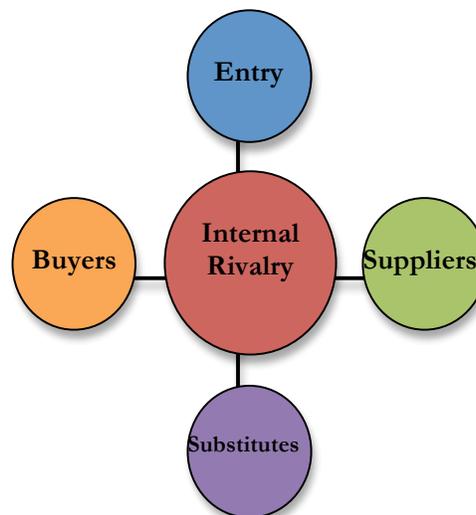
5 Years

Industria de Diseño Textil Indl

ITX.MC XRT S&P500



COMPETITIVE ANALYSIS



Internal Rivalry (High)	Barriers to Entry (Low)	Supplier Power (Low)	Buyer Power (Moderate)	Threat of Substitution (High)
<ul style="list-style-type: none"> Fashion retail industry is highly competitive and saturated The presence of fast fashion is growing quickly Inditex facing increased competition but holds a strong and unique market position 	<ul style="list-style-type: none"> Relatively low initial capital required, low-skill in-store jobs Entrants are partially dependent on current economic conditions Highest barriers to large-scale players are those due to size, brand, and networks 	<ul style="list-style-type: none"> Inditex has stake in important suppliers, and is unusually vertically integrated Utilizes over 1,200 global suppliers, strengthening its bargaining power Can terminate working with unethical suppliers, minimizing brand risk 	<ul style="list-style-type: none"> Economic recession strengthens position within markets Inditex products are most competitively priced (Spain) Economic recession weakens position in foreign markets where Inditex prices are comparatively higher 	<ul style="list-style-type: none"> Consumer faces no switching cost Competitors offer many similar products Inditex offers a wide range of products throughout its subsidiaries to mediate this Roll-out of online stores reduces threat of retail channel substitution

Source: Personal Construction



MARKET DEFINITION

Inditex operates predominately in the fashion retail industry, and is today the largest global fashion retailer by sales. The fashion retail industry is highly saturated and highly competitive, as well as very broad. Within the fashion retail space there are many ways for companies to define themselves and compete. Small independent boutique stores may compete solely within a local market, while other retailers are regional, national, or global chains. Department stores such as Macys or Nordstrom offer separate collections for men, women, teens, and children, while Chico's for example targets a much narrower demographic of middle to high income women over 35. Since it is ineffective to compare Chanel to Old Navy though both fit under the fashion umbrella, it is more useful to stratify the industry into different segments based on size, location, product offerings, price, and target audience to better determine competitors.

Inditex owns eight retail concepts, seven of which currently operate in differentiated fashion markets, each targeting fashion forward and price savvy shoppers, from teens to the more sophisticated trend seeker. Inditex's eighth retail format, Zara Home, is the one exception and the company's first foray outside of the fashion world. Zara Home offers stylish home décor and linen, though it only accounted for 2.2% of Inditex's overall sales as of 2012 so its influence is minimal. Within the fashion retail industry, Inditex operates in the fast fashion segment – a space the company invented. Companies that operate within the fast fashion space combine quick response production capabilities with enhanced product design capabilities to both design products that capture the latest consumer trends and exploit minimal production lead times to match supply with uncertain demand.²²

INTERNAL RIVALRY

Zara is the company's flagship retail format and the key to their success, accounting for 66.1% of overall sales in 2012. Zara offers greatly imitative high-fashion trends at low to midrange price points, drawing the attention of young, fashion enthusiasts around the world. As a broad, yet high-fashion style retailer, Zara competes with most major fashion chains as well as local independents around the world. While other competitors such as H&M also promise affordable trendy clothing, Zara is more closely aligned with the styles one might find in Paris or Milan, so much so that it has garnered negative criticism for copying high-end designers too closely without credit or payment. To summarize what a unique niche Zara occupies in such a highly



competitive industry, a Goldman Sachs analyst described the brand as “Armani at moderate prices.” Another industry observer suggests Zara fashions are more “Banana Republic”, while its prices are more “Old Navy.”²³ Zara not only competes with product differentiation, offering the most closely imitative European runway styles among its competitors, but also on price. Inditex first identifies the prices customers will pay for competitors’ products, and then targets prices often 15% below this amount.²⁴

More noteworthy, Inditex was the first fashion retailer to compete based on time-to-market. Inditex’s unique business model is what gives it a competitive advantage as the pioneer and frontrunner of fast fashion, causing its competitors to either adapt or fall further behind. In recent years, European fast fashion chains have grown more quickly than the retail fashion industry as a whole.²⁵ While this drastic growth rate means that other companies have learned to replicate parts of Inditex’s model, the retail giant has so far managed to stay one step ahead of the competition. Their first mover advantage has given them more time to fine-tune production and design processes and grow their global presence.

The company’s vertical integration, short supply chain, and minimal inventory allow it to be responsive and avoid risk. To illustrate what an asset this model truly is, we can examine the fall of the former retail leader and current competitor, Gap Inc. Gap, following the traditional fashion model, places orders for seasonal collections months before they hit the stores in order to accommodate the long lead times of their contracted overseas manufacturers. This means that Gap and others have to predict what customers will want months in advance, and the cost of failure is high. Gap was able to manage this successfully until the turn of the new millennium, at which time the company tried to revitalize the brand to ease falling sales, but predicted trends horribly wrong. Chasing a new teen demographic that never came, the store was left with a stale inventory of mini skirts and low-rise skinny jeans, styles unappealing to Gap’s typical customer. As a result these classic customers turned to other retailers, and because of the long lead time required to get new clothes back into the stores, the company could not quickly mediate the issue and saw a decline in sales for a consecutive 29 months. While the Gap was faltering, Inditex was gaining traction in the market and by August 2008, sales edged ahead of Gap and Inditex took the title of the world’s largest fashion retailer.²⁶



Not only does Inditex's business model uniquely protect it from risk, it also creates a buying environment that promotes more frequent sales. The industry average length of time it takes clothes to go from the design stage to the store floor is 5-6 months. When it comes to Zara, this process takes a mere 2 weeks, and to avoid excess inventory, only a relatively small number of each garment is shipped to stores. This means that new designs enter stores frequently, but won't be available for long. This cycle creates a "buy now" attitude within Zara stores, and encourages customers to return more frequently for new items. The average Zara customer visits the store 17 times per year, compared with only three annual visits made to competitors.¹⁷

Why has no one exactly copied Inditex's business model? One executive at Gap is said to have answered: "I would love to organize our business like Inditex, but I would have to knock the company down and rebuild it from scratch."²⁷ Inditex's head start and deep knowledge of this type of production has given it a huge advantage, though in the fashion industry nothing lasts forever and the margin between Inditex and its rivals is bound to shrink. Other retailers are looking to move production out of Asia and some have even started poaching Inditex corporate employees.

The Swedish company H&M, Inditex's most similar rival and second largest global retailer, has incorporated many similarities into their own business. H&M has expanded substantially in recent years, and today there are 2,800 stores in 48 markets, Germany being the largest, followed by the US, UK and France. H&M sees potential for continued expansion in existing as well as Asian markets. Like Inditex, H&M collaborates with franchise partners in certain markets, but franchising is not part of their general expansion strategy. The H&M Group includes H&M, H&M Home, and five other apparel brands with varying target audiences: COS, Monki, Weekday, Cheap Monday and & Other Stories. H&M employs a blend of traditional and fast fashion, offering two main collections each year, but within each season there are sub-collections that allow H&M to continually refresh its inventory. The primary collections are traditional long-lead items while the sub-collections are trendier items with three to six week lead times, made possible by the company's 20 to 30 production offices placed close to its suppliers.²⁸ While Inditex has twice the number of stores as H&M and still boasts a faster response time, the Swedish entity offers a lower price point while controlling a much higher percentage of the American market.



While Zara and the likes of Gucci and Prada are not direct competitors, Zara is changing the high-end fashion game as well. Masoud Golsorkhi, the editor of *Tank*, a London culture and fashion Magazine says “The retail strategy for luxury brands is to try to keep as far away from the likes of Zara. Zara’s strategy is to get as close to them as possible.²⁹” As the brand grows and fast fashion becomes trendier, Zara has a unique offer for consumers. Duchess of Cambridge Kate Middleton, whose outfits and style have been the center of much media attention, was even photographed wearing Zara. Golsorkhi went on to say, “[Zara] broke up a century-old biannual cycle of fashion. Now... half of the high-end fashion companies make four to six collections instead of two each year. That’s absolutely because of Zara.²⁰” While Inditex will undoubtedly face increased competition as other retailers adapt to a faster fashion approach, it currently holds a strong, distinct, and influential roll in the market. Louis Vuitton’s fashion director Daniel Piette calls Zara “possibly the most innovative and devastating retailer in the world.³⁰”

As for Inditex’s other seven retail concepts, Pull & Bear’s casual product offerings makes its closest competitors other casual surf wear and lifestyle/sportswear companies. Massimo Dutti’s closest competitors are upper mid-market fashion retailers and lifestyle brands such as Banana Republic and Ralph Lauren. Given Berksha’s narrower consumer demographic, it occupies a smaller competitive landscape than Zara, and faces competition from other large international chains with a young fashion focus such as H&M, as well as varying local independent retailers. Stradivarius, like Berksha, has narrower competition than Zara given its sole female focus, and faces similar competition. Oysho, Inditex’s specialized lingerie and accessories retailer, faces competition from other lingerie and accessories chains as well as department stores, local specialists, and other Inditex concepts. Zara Home competes within the homeware market, which is also highly fragmented. Lastly, Uterqüe’s focus on accessories and leather goods makes its competitive landscape quite broad. Uterqüe must compete with the accessories offerings of department stores and specialist retailers, while its prime real estate and prices allow it to compete against affordable luxury and premium lifestyle brands.³¹

ENTRY

Barriers to entry are relatively low in the fashion retail industry. Historically, acquiring property, inventories, and a physical storefront was the biggest upfront cost and barrier for companies wishing to enter into the brick-and-mortar apparel space. However, with the sizeable growth in e-commerce



platforms and online retail this initial barrier is reduced, encouraging the entry of more competitors and increasing competition. In addition to this relatively low capital requirement, workshops and storefronts do not require highly skilled laborers. Despite this, economies of scale in production impact entrants who will either accept a cost disadvantage or produce in large volumes. Entrants wishing to compete on a greater, global scale face the highest barriers to entry. Competitors that outsource manufacturing develop a broad network of suppliers over time, giving them a resource that cannot be immediately copied by new entrants. Similarly, Inditex has spent decades perfecting its integrated network, and a new competitor cannot duplicate this advantageous large-scale integration, IT response structure, or distribution system upon entry. Moreover, Inditex and its closest competitors have a high brand value that cannot be achieved immediately.

Lastly, the current global economic condition is a potential barrier to entry that must be considered. During a recession, retailers offering low price points become more competitive, and new entrants are more likely to hesitate. As the global economy moves out of the recession and customers regain buying power, then the incentive to enter increases. Despite Inditex's high percentage of sales within its home Spanish market, the company's low prices allowed it to remain competitive during the downturn of the economy.

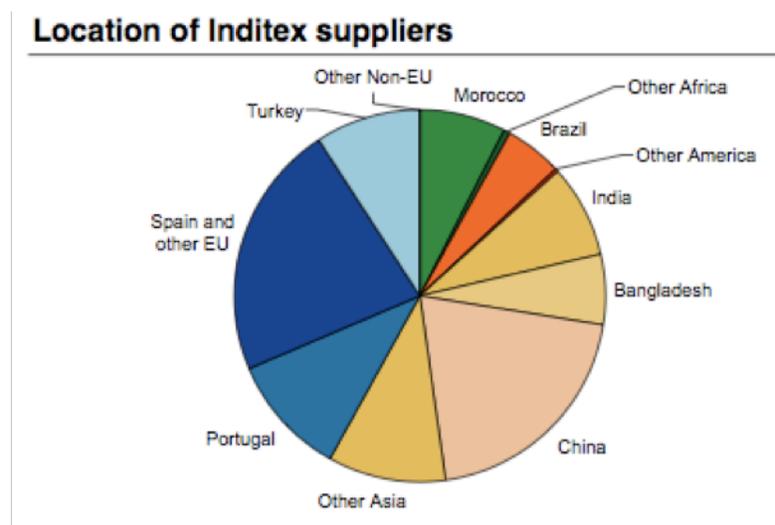
SUPPLIER POWER

Inditex has 13 textile manufacturing subsidiaries located in Spain and 11 logistics subsidiaries (one for each concept and 4 for Zara). The most prominent company owned manufacturer is Tempe, which designs, manufactures, and distributes shoes to each fashion retail format.³² Due to its scale, Zara is the only concept to source internally, though it is free to source as much as necessary externally to ensure that its internal sourcing remains competitive. The other concepts use only external suppliers. Zara does not produce its own fabrics, and outsources low value-add, labor-intensive parts of production such as sewing. The majority of fabric dyeing is outsourced to partly owned subsidiaries in Northern Spain, and Inditex has a 50% stake in high-value add production firms, giving them considerable price bargaining power. About 50% of Inditex's suppliers are located in Spain, Portugal, and Morocco, about 35% in Asia, while the rest are spread throughout Europe. Asian manufacturers largely supply simple, standardized orders such as t-shirts and jeans since these products don't require particularly fast lead times.³³ Due to its higher offering of sewing



intensive tailored clothing, Massimo Dutti sources the majority of products from proximity markets and Europe.³⁴

Inditex uses a total of 1,237 suppliers across the globe.³⁵ By increasing suppliers, the company is shielded from risk because it is less dependent on each individual firm and can keep each stage of production competitive. Furthermore, Inditex is known to value corporate responsibility, and by having so many options they are able to cease business with a supplier if unfavorable or unethical conditions are discovered within that factory. Beyond morals, this also makes good business sense since scandal could tarnish the brand name.²²



Source: Morgan Stanley

BUYER POWER

Buyers in the fashion retail industry have no switching costs and can easily search for best prices because the industry concentration is high. External conditions and economic instability are potential threats to fashion retailers due to their effect on purchasing power and demand. Recessions affect companies differently depending on their price position in the market. About a quarter of Inditex's sales are generated in Spain, and within the Spanish market its prices are low due to the proximity to its suppliers and low transportation costs. Despite the reliance on its stalling home market where consumption is dropping and businesses are struggling, Inditex was able to remain competitive given its price leader position, and even managed a 1% increase in revenue in 2011.³⁶

However, in other markets, especially those overseas, higher transportation costs are transferred to the consumer so Inditex is not able to maintain as low of a price point. Furthermore,



in foreign markets with lower prices in general and with higher proportions of lower income shoppers, Inditex prices seem less like a bargain and are less assessable. Therefore, in these markets, economic downturns could result in a loss of market share.

SUBSTITUTES & COMPLEMENTS

Given the relatively nonexistent switching costs for retail consumers, the threat of substitution within the industry is high. Inditex’s broad range of offerings and brand formats give it an advantage. Within its eight retail formats Inditex offers clothing, lingerie, swimwear, purses, jewelry, accessories, and footwear in casual to formal styles. Similarly, within the eight brands the company caters to both men and women, kids to adults, and low price to mid/high price shoppers. Zara especially has gained a loyal consumer base eager to return again and again. By offering so many products and appealing to various market segments, Inditex minimizes its own substitution risk within the fast fashion industry. Furthermore, by rolling out its own e-commerce platforms in 2010, the company also diminished the threat substitute electronic retail channels pose to brick-and-mortar companies.

SWOT

<p><u>STRENGTHS</u></p> <ul style="list-style-type: none"> • VERTICAL INTEGRATION • BRAND NAME • REACH • REAL-TIME DATA AND COMMUNICATION 	<p><u>OPPORTUNITIES</u></p> <ul style="list-style-type: none"> • ONLINE SALES • CONTINUED EXPANSION
<p><u>WEAKNESSES</u></p> <ul style="list-style-type: none"> • UNDERDEVELOPMENT OF NON-ZARA BRANDS • OVERDEPENDENCE ON EUROPEAN AND DOMESTIC MARKETS 	<p><u>THREATS</u></p> <ul style="list-style-type: none"> • EUROPEAN/ SPANISH ECONOMIC RECESSION • FAST FASHION FATIGUE • INCREASED COMPETITION • GROWING MORE QUICKLY THAN THE BUSINESS MODEL

STRENGTHS

The success of Inditex as the world’s leading fashion retailer is built upon the parent company’s numerous strengths, which also make it a formidable opponent within the market.

Vertical Integration

The fast fashion industry is highly competitive. Product life is short and must be differentiated from competitors in order to build brand image. Firms in this industry also largely compete on price,



which intensified as companies began to utilize low cost outsourcing. Today, competition has shifted and is also dependent on quick response time. Therefore, the vertical integration of Inditex gives it an advantage in implementing processes that shorten the production cycle. Competitors more highly dependent on third party negotiations are less nimble and flexible in their response time. Inditex employs over 1,000 people in its central product department, has 13 textile manufacturing subsidiaries in Spain, 11 logistics subsidiaries, eight distribution centers, and 6,009 retail stores.³⁷ This means that Inditex staff is involved in each step of the value chain, spanning design to retail.

Brand Name

The high investment in the Zara brand name is an asset for Inditex, as well as their other retail formats through association. For example, customers who correlate Zara with desirable, affordable, must-buy products are more likely to shop at Zara Home when searching for home décor because of the positive name association. While Inditex only spends 0.3% on marketing, its high investment in real estate and storefronts with uniform Prada inspired layouts gives the Zara brand a unique image as high-end despite its lower price point. Signaling, word of mouth, and free publicity due to the company's rapid success have continued to generate brand strength. The name Zara itself generates a buzz among shoppers who return frequently, with loyal customers even referring to delivery day as "Z-day." In some ways, Inditex has not only created a strong brand name with Zara, it has created a culture.

Reach

Inditex has a broad reach, both globally and within the industry. With stores currently in 86 countries, Inditex captures a wide range of global shoppers. This global reach also minimizes the risk associated with regional economic fluctuations. For example, even as the Spanish economy stalls, Inditex was able to have a highly successful 2012 because of its expanding presence in Asia. The rollout of online retail formats also allows Inditex to reach shoppers farther from its storefronts who are time sensitive. Geographic reach is not the company's only asset however, as its brand portfolio also gives it an advantage through broad presence in almost all market segments.



Source: Grupo Inditex Growth Opportunities Presentation

Real-time Data and Communication

Inditex maintains a strong link between product teams and store staff. Each retail format's head office is home to a product team of designers, merchandisers, and store liaison managers that work together to develop new products and analyze current sales data. Designers use a variety of information about customer preferences, including scouting runway shows in Milan and Paris to develop new products. Store employees are then tasked with soliciting feedback from shoppers about what they'd like to see more of, done differently, in different colors or necklines, and so on. Stores send daily sales totals, customer feedback, and detailed information about what items sold broken down by color and size to headquarters twice a week. Store managers place orders twice weekly based on what they feel will be successful in their specific store, and designers review both formal and informal feedback daily.³⁸ Because Inditex monitors its sales at the store level and adjusts accordingly, each individual store could end up with different product offerings at the end of a season.³⁹ In this way Inditex again reduces inventory risk, and makes customer decisions and ideas the central element of its supply process. By exactly matching supply to changing and varied customer demands, Inditex's business model is noted as being the "democratization of fashion."

While Inditex is heavily reliant on such communicative feedback and data analysis, it keeps its technology simple, "even a little old fashioned."⁴⁰ Managers make decisions about suppliers and external providers informally, without the need for supply chain software, and no permanent networks link stores, headquarters, factories, and distribution centers.⁴¹ Inditex has honed a highly efficient technological response system that produces results, while spending five to ten times less on IT costs than its rivals.²⁴



WEAKNESSES

Underdevelopment of non-Zara Brands

Currently, Zara accounts for 65% of Inditex's total revenue, and the company's other 7 retail formats make up the rest. The company's next biggest sales generator is its Berksha brand, accounting for approximately 10% of sales. However, while there are roughly twice as many Zara stores as compared to Berksha stores, Zara generates about 6.5 times more sales. While the Zara brand has become well known globally, the other 7 are more limited in this regard. At this point it appears that Inditex has bet much of its success on one concept, and while this strategy doesn't currently seem problematic given Zara's prominence and success, the fashion world is fickle and can change quickly.

Overdependence on European and Domestic Markets

In 2012, Europe accounted for 66% of Inditex sales, with 22% of sales coming from its Spanish home market. Such heavy reliance on Europe could leave the company more vulnerable to economic fluctuations in times of fiscal crisis. This is a fact the company is aware of, however, and seems to be remedying as part of its overall growth strategy as European and Spanish proportions of total sales dropped 1% and 4% since 2011, respectively.

Despite its decreasing dependence on European and Spanish sales, Inditex is still heavily domestically dependent in its business model. All of the company's manufacturing and logistics centers are located in Spain, and the "proximity" sourcing which allows its retailers to respond so quickly to changing demands is based on proximity to its Spanish headquarters and distribution centers. Inditex ships clothing to its stores either by truck or plane in under 48 hours, and the costs of shipping to different continents so quickly are higher, a cost which the consumer will partially share, making price points less competitive. As Inditex continues to pursue non-European markets, it is moving more of its business transactions further from this central location, though it is this centrality that generated much of Inditex's success. As the pace of its global expansion away from Europe quickens, Inditex must be acutely aware of the effects this distance will have on its costs and speed of distribution.



Diversified sales platform

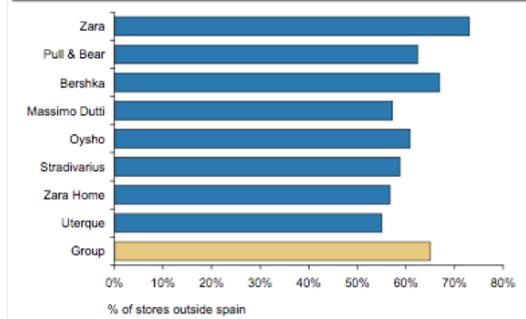
INDITEX



Store sales (%)	1H2012	1H2011
Europe ex-Spain	44%	45%
Spain	22%	26%
Asia & RoW	20%	17%
Americas	14%	12%

Source: Grupo Inditex Growth Opportunities Presentation

Proportion of Stores outside Spain by concept



Source: Morgan Stanley

OPPORTUNITIES

Online Sales

According to a study by Forrester Research analysts, online spending by Americans is expected to increase 45% by 2016, at which point it is predicted to account for 9% of total retail sales. By analyzing trends in sales figures released by the U.S Census Department, Forrester predicts that this growth will be a result of online retailers improving their websites and services, and will be particularly true of online apparel and jewelry retailers.⁴² Purchases made on mobile phones and tablets are also expected to drastically increase through continued development of retail apps. Given this digital push, current brick-and-mortar retailers looking to significantly bolster their brand will need to continue to find ways to integrate e-commerce and offline sales. Customers do not distinguish between types of retail channels; their main goal is to find the design and quality they want at a good value wherever that might be, and switching costs to them are virtually nonexistent. To manage a successful brand, companies need to be aware and adapt to customer behavior, which today means being strong in both platforms, as well as integrating more social media. Traffic from Pinterest has doubled in the last year, and while the main goal of social media should be to generate awareness rather than sales, traffic to retail websites referred from social networks has grown 30% year-over-year.⁴³

As shown in the chart below, Inditex is continuing to increase its online presence, with both Zara and Zara Home having presence in about 20 key markets. There is still much room for continued roll-out, especially in the Americas for Zara, and further development of the other retail brands. All of Inditex's additional online platforms such as YouTube channels, apps, social media,



and newsletters are intended to both facilitate online retail and allows customers to explore look books and product ranges.⁴⁴

Global online sales		INDITEX
From 29 Oct 2007	Zara Home	Europe: Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal, Spain, Sweden, UK, Switzerland, Norway, Finland, Poland
2 Sept 2010	Zara	Spain, Portugal, France, Germany, Italy, UK
4 Nov 2010	Zara	Netherlands, Belgium, Luxembourg, Austria, Ireland
3 March 2011	Zara	Switzerland, Monaco, Sweden, Denmark, Norway
From 6 Sept 2011	Massimo Dutti, Bershka, Pull&Bear, Stradivarius, Oysho, Uterqüe	Europe
7 Sept 2011	Zara	United States
20 Oct 2011	Zara	Japan
7 March 2012	Zara	Poland
5 Sep 2012	Zara	China
Oct. 2012	Massimo Dutti, Zara Home	United States
6 March 2013	Zara	Canada

Source: Grupo Inditex Growth Opportunities Presentation

Expansion

A study by Deutsche Bank concluded that 6% to 9% growth in Inditex’s retail space should be sustainable for the next 10 years, given the company’s financial strength, little debt, and strong cash reserves.⁴⁵ While there is still room to expand within Europe where the company has proven very successful, the spending power of consumers in emerging markets around the world is changing the industry landscape. Global apparel retailers seeking new sources of growth are eyeing China, India and Brazil due to their large populations and strong economic growth. As consumers gain more disposable income, their first increase in spending beyond necessities occurs within the apparel industry, making these appealing markets.⁴⁶

Inditex is currently favoring expansion within China. CEO Pablo Isla claims “going into China is like beginning again in Europe for Inditex.” The company opened 179 new stores in Asia in 2011, 156 of which were in China. By the end of 2012, Inditex had increased the number of Chinese stores to 400.⁴⁷ China will impose some challenges given that Zara’s prices are far higher than local rivals. In Spain, Inditex is successful because its clothing seems like a steal, but in China Inditex will have to adjust its practices to portray products as luxurious enough to justify the higher price point. Nonetheless, the average Chinese shopper’s tastes are well aligned with European fashion trends as well as Inditex’s sizing scheme.



This is in direct contrast to America, where Inditex has been hesitant to expand and currently only has 48 Zara stores and two Massimo Dutti locations. Inditex does not offer plus sizes, and given the obesity epidemic and larger size of the American shopper, it is hard to break into the American mass market. Fashion conscious shoppers supportive of Zara's minute-to-minute trends are primarily located in major American cities, while outside of these areas Americans prefer more classic and roomier styles and the distance between cities is much greater than in Europe. José Luis Nuño, a professor of marketing at Madrid's I.E.S.E. Business School explains that "the United States is a graveyard of European retailers" for these reasons.⁴⁸ Zara stores are currently located within American high end metropolitan areas, though to expand further the store would need to sell plus size garments, which would complicate the production process.

Inditex has been doing well without tapping into the American market on a large-scale, despite the fact that the United States is the largest apparel market in the world. By expanding heavily in China, which is currently the third largest apparel market behind the U.S. and Japan as well as the fastest growing, Inditex can increase sales without changing product offerings, supplemented by similar opportunities in Eastern Europe and Latin America.⁴⁹ In addition to expanding its number of stores, Inditex is currently buying larger new stores, undergoing enlargement of its flagship store space, and revamping store images in a handful of its most prime real estate locations. This space expansion aims to increase product visibility, creating stronger visual merchandising and enhancing the in-store experience.⁵⁰

THREATS

While the state of the European and Spanish economies continues to pose an overarching threat to Inditex due to its strong dependence on these markets for the majority of revenue, there are three more Inditex specific threats to be mindful of.

Fast Fashion Fatigue

Fashion is fickle, and trends can change overnight – trends that not only influence the clothing that we buy, but also how we buy it. According to David Wolfe, a New York-based trend forecaster, “there’s a vast sector of the public that really has been burned out by fast fashion... There’s a great opportunity now for quality basics that are very well-priced.” In the industry, fast fashion has been referred to as “McFashion,” or “throw away fashion,” and criticized for promoting “today’s



treasures, tomorrow's trash.⁵¹ Today's young consumers are part of a generation highly concerned with sustainability, the environment, and green values, and are slowly becoming aware of how their fashion choices can support sustainable progress as well. The United States, for example, experienced a 5.3% decrease in total garments purchased from 2010 to 2011 while simultaneously experiencing a 5% increase in the value of sales, demonstrating Americans' shifting preference and willingness to pay.⁵²

Gap has taken notice, and invested in upgrades of its merchandise in the spring of 2012, and the company rebounded 6.4% from 2011 while experiencing the second-best gain in the S&P 500 Index. This new movement is well aligned with the Japanese fashion company Uniqlo's business, which CEO Shin Odake calls the creation "of perfect basics." Odake elaborated, "a lot is dictated from the fabric, the quality, and... we feel it's very important to strategically partner with a few fabric manufacturers that we believe are the world's best."⁴⁹ While the sales of fast fashion heavyweights such as Inditex have remained strong, it is important to note that the continuation of this demand for higher quality garments could leave some parts of the Inditex group vulnerable. However, this trend could also bolster the Massimo Dutti format, which is known for more tailored, sophisticated pieces at the company's highest price point.

Increased Competition

The success of the Inditex business model has created increased competition as other retailers adjust their own processes to more closely resemble the quick time-to-market and just-in-time delivery utilized by the industry leader. H&M, the second largest global retailer for example, has been incorporating three-week turnaround items into their more traditional seasonal lines, and their trendy, low-priced products draw some of the same core demographic as Zara, Berksha, and Stradivarius. Mango, another Spanish retailer currently with 2,600 stores in 109 countries, saw its profits decline 60% between 2009 and 2011, and is now emulating Zara as much as possible in order to fix its recent problems. Two years ago, 70% of Mango's revenue came from party and special event clothing, and 30% from casual wear. They have since switched this ratio and cut prices 20%, bringing them closer to Zara's, in addition to increasing expansion outside of Spain and implementing a faster fashion model. While Mango is still far behind Zara in global revenue, it outpaced Inditex's sales growth by 6% in 2012.⁵³ In 2012, Inditex posted \$20.8 billion in revenue, while H&M generated \$18.6 billion and Mango \$1.96 billion. Mango is a ways off from being a



dominant global player, but it is now capturing some of Inditex's consumers and is a good example of how quickly competition can change within the industry.

Inditex does not only have to worry about imitative competitors, but also other companies capturing significant market share through different means. Behind Inditex, H&M, and Gap, the new up-and-coming retailer Uniqlo is the world's fourth-largest clothing retailer, expected to post \$10 billion in revenue and \$1.5 billion in profit in fiscal 2012.⁵⁴ Both cheap and chic, Uniqlo offers a different range of products than Zara, focusing on well constructed basics rather than instant trends, but is also planning rapid expansion, especially in the American market, and is targeting \$50 billion in revenue by 2020. Whether Uniqlo will reach this goal or not, it is gaining traction and is evidence of the ever present competition and innovation that can spring forth within the industry.

Growing More Quickly than the Business Model

As Inditex continues to expand outside of Europe, they are moving farther away from their centralized design, logistics, and distributions centers as well as their suppliers. The company's record setting time-to-market, rapid response to real-time data and feedback, and just-in-time deliveries upon which its success was built were made possible by sourcing 50% of materials and labor locally and keeping design close to distribution. As Inditex continues to target foreign markets, it seems to be growing without also growing its successful business model.

While the company can ship products to any global location in under 48 hours, the costs of doing so increase drastically the farther stores are from the company's Spanish hub. Consumers in these markets must subsequently incur part of these higher transportation costs, causing Inditex to be unable to compete as competitively on price as it does in Spain. What's more, consumers in China and South America are used to average prices below those of Europe, making Inditex less of a bargain even before transportation costs are incurred. Inditex is currently navigating these issues effectively, however, growing without redefining the idea of "proximity" central to its successful business model could cause the company to be less competitive in the future as more of its revenue is generated outside of Europe.



Source: Grupo Inditex Growth Opportunities Presentation

STRATEGIC RECOMMENDATIONS

CONTINUED INTERNATIONAL EXPANSION

In fiscal 2012, Inditex opened 482 new stores globally, including five new markets in Eastern Europe and South America. In addition to this 8.7% store growth, the company recorded space growth of 11.4% as it continues to revamp and increase storefronts. Related to this growth, this past year Inditex's operating expenses including start-up costs for new stores grew by 14%, along with a 14% increase in personnel expenses and a 9.3% increase in rental expenses. Ordinary capital expenditures reached \$1.44 billion, driven by new stores. Despite expansion however, the company's EBITDA margin and net income margin increased from 2011 to 2012, as did return on equity. Inditex essentially has no debt and strong cash reserves, allowing it to self-finance expansion projects with cash from operations and even increase dividends during this rapid growth. In fiscal 2013, Inditex plans to continue expanding at a similar pace and expects \$1.63 billion in capital expenditures for new stores, with the opening of 440-480 new stores resulting in 7.7% store growth, along with 8% growth in retail space. Inditex is an incredibly healthy company in a strong financial position, and should be able to continue self-financed growth without taking on debt. Deutsche Bank estimates that 6% to 9% growth in retail space should be sustainable for the next 10 years as the group expands into fast-growing markets in Asia and Latin America.⁵⁵



Store opening programme 2013	Range	
Zara	110	115
Pull & Bear	40	45
Massimo Dutti	45	50
Bershka	75	80
Stradivarius	95	100
Oysho	35	40
Zara Home	35	40
Uterqüe	5	10
Total openings	440	480

Source: Grupo Inditex presentation 2012

Asia

Japan and China are currently the second and third largest global apparel markets, respectively. China's \$84 billion retail market is the fastest-growing apparel market in emerging countries, and the Chinese mass market drives 12% growth per year while 70% of apparel sales in urban China occur in modern formats.⁵⁶ In a proprietary research project conducted by McKinsey, it was concluded that mass-market Chinese consumers typically have small, undifferentiated wardrobes, with 40% of respondents reporting that they wear similar clothing to work, formal social occasions, and dates with friends and family. This means that retailers in China may find it difficult to specialize in fashion subcategories, but is an advantage for Zara since the brand appeals to a broad demographic range and offers relatively flexible pieces that can be worn to work or with friends and family.

China also has the most pronounced differences between young and older consumer behavior. While only 25% of older shoppers agree that foreign brands offer higher quality than local brands, 50% of Chinese shoppers age 18-25 (comprising 15 million people) agree that foreign brands are higher quality. This younger demographic is also more likely to shop more frequently and spend larger amounts on clothing, increasing this tendency as their disposable income rises. China also reports using price to assess quality more frequently than other emerging market consumers. This combination strengthens Zara's opportunities within China, since it can use its price point and foreign image to relate quality to these shoppers. By creating lower-cost trendy stores, Zara can appeal to both mass-market consumers with premium tastes and to higher-end customers searching for bargains.⁵⁷ However, given that targeting shoppers even younger than Zara's core consumer group seems like a lucrative opportunity in this country, there is ample opportunity for Inditex to



expand its other Berksha and Stradivarius concepts as well. There is also opportunity for retailers to create lower-priced extensions of existing brands, a strategy Zara has utilized in Spain and could expand to China as well.

India is another emerging market drawing the attention of global retailers, though the country's lower per-capita income levels mean there is less overall spending within the apparel industry. India is unique in that 74% of its shoppers always go to stores with family and view shopping as the best way to spend time with family, more than twice the average of Brazil and China. The most important reported shopping occasions are centered around special events, such as weddings and festivals. What's more, more than half of the female respondents reported that their husbands had the most influence on which stores they shopped at, while only 3% of Brazilian women and 8% of Chinese women said the same thing. In this country, men make most of the decisions about apparel purchases for the family, and its men's apparel market is larger than women's.⁵⁸ As Inditex's concept with the broadest appeal for men, women, and children, Zara might fit well among Indian's family oriented consumer habits and willingness to pay for special occasions within India's highest class. However, Inditex's specialized young and female brands such as Berksha and Stradivarius are limited in this market.

Continue slowly in America

Inditex has received some criticism for its conservative expansion within the American market. Some feel that Inditex is forgoing a large opportunity by not offering the plus sizes needed to capture significant mass-market consumers within the United States. However, Inditex has been extremely successful in spite of its minimal American presence, and with its future focus on expansion in Asia will not be short on growth potential. It is important that Inditex stay true to its brand, which defends its smaller sizes as part of its overall image, and not complicate production lines by introducing more sizes during this time of rapid expansion. In the future, it might be the case that Inditex will want to capture more share of the U.S. market given unforeseen changes in the competitive landscape, however for now a limited approach to U.S. expansion is advisable so that all of Inditex's resources can be focused on feasible and profitable expansion given current market opportunities.



Expand the Business Model

As Inditex continues to generate more of its revenue outside of Europe, the company should consider adapting its business model for Asia by opening design, production, and logistics centers in the continent. Inditex currently employs about a dozen designers in Shanghai, compared to approximately 300 designers in Spain, and has a similar number of suppliers within China as it does within Spain and the EU.⁵⁹ However, with all distribution and logistics currently taking place in Spain, clothing made in China is then shipped to headquarters before being shipped back and sold in Chinese stores.

While the implementation of logistics and distribution centers within Asia will add a complication to Inditex's refined production process, both the company's finances and business model can support this type of expansion. Inditex's success is predicated on proximity sourcing, and as they seek a higher reliance on Asian markets, it makes sense to bring this same sort of proximity to Asia. Inditex is currently very successful in its communication practices between stores and headquarters, and adapting to include Asian corporate centers in this feedback and data loop seems an attainable goal. The fact that through this process each individual store throughout the world could potentially end up with different product offerings at the end of a season also makes the opening of Asian logistics and distribution centers feasible. This tailored process gives stores flexibility and avoids heavy dependence on broad, overarching decisions by management, allowing multiple central locations to be successful.

The creation of a secondary central hub would produce several advantages, especially given the company's high growth rate within Asia. First, José Luis Pavia Cervera, a former executive at Inditex predicts that European creativity is waning, and that in the future "China will set the trends."⁶⁰ Given Inditex's value proposition and high-trend offerings, being near growing style movements is vital to its business. Second, shipping products from Asian distribution centers to Asian retail locations would reduce distribution costs and allow Inditex to lower prices within these markets. Given that Inditex prices are currently much higher than the market average in Asia, being able to compete more on price would be advantageous. Third, as Inditex rolled-out its Zara online store in Japan in October, 2011 and in China in September, 2012, it surely began to face a more complicated distribution process as it adapted to shipping orders to both stores and homes.



Having multiple distribution centers in the future as the company continues to roll-out more online stores would provide greater flexibility and ease the burden on current company centers.

Given the required adjustments, expenditures, and technology that will need to be implemented to open distribution, design, and logistics centers within Asia, it is recommended that Inditex hone this type of expansion project before seeking similar undertakings. However, in the future it would also be advisable that Inditex open similar facilities within the Americas after refining its integration processes. This area is less pressing given Inditex's current focus on Asia and lack of a large-scale e-commerce presence within South and Central America, but would be beneficial for the same reasons. Having production and distribution centers in the Americas would also give Inditex flexibility if it ever sees the future need to enter the American mass-market. Doing so would require the production of plus size clothing, which if produced in more local centers would only complicate some of Inditex's production lines, leaving its Spanish and Asian centers to operate as they are now.

CONTINUED ONLINE RETAIL DEVELOPMENT AND EXPANSION

Improve Reach and Optimize Design

With online retail expected to increase substantially in the next several years and apparel retailers seeing the fastest e-commerce growth in the retail sector, it is imperative that Inditex continues to develop and expand its online presence. Given Zara's online store is currently available in only 21 countries, specifically Europe, China, Japan, and the United States, there is much room to expand its availability into the Americas and other smaller markets. Zara Home's online store is at a similar development stage, however Inditex's other retail concepts are more limited in their online presence and should similarly be expanded. As Inditex broadens its e-commerce reach, it should also continue to assess and strengthen the design, layout and usability of its sites to create the best user experience to motivate sales. Online elements such as the selection of home screen images, ease and desirability of sort features, and availability of sizing and fit information are highly influential in online retention and conversation rates. Website optimization can continually be evaluated using customer surveys or A/B testing. Additionally, with mobile internet use predicted to outpace desktop internet use by 2014 and currently 25% of online shoppers reporting that they only use smartphones or tablets to make purchases, the development of Inditex mobile sites is equally important.⁶¹ Mobile sites and apps can be similarly optimized but with a higher focus on simplicity, clean design, and ease of use.



As a supplement to online stores, social media platforms should continue to be a developing part of Inditex's overall online strategy. While the overall percentage of web traffic directly referred from social media sites is still less than 0.5%, it is growing in some areas. While Facebook was slightly down in 2012, traffic from Pinterest nearly doubled.⁶² The main goal of social media however should be to generate excitement and brand awareness while giving potential customers the opportunity to explore products, styles, and lookbooks. Social media also gives customers the opportunity to communicate with one another, share pictures and ideas of how to wear current products, and through this direct interaction feel more like an incorporated part of the brand identity, ultimately generating higher degrees of brand loyalty. Zara currently has 18,203,070 likes on Facebook for example, and can reach out to this many actively interested customers through inexpensive social media posts. Growing this social media presence through low cost ads and promotions will help drive loyalty and retention. Inditex should especially strengthen its use of Pinterest's visual content and sharing ability, as the site currently only has 26,489 Zara followers, and also build up the pages of its other brands.

The main advantages to be gained from this general online expansion and attention to web design are threefold. First, this strategy allows Inditex to remain competitive with other retailers. Online channels produce sizeable sales figures, and with these numbers only expected to increase as a higher proportion of shopping is done online especially within younger demographics, not offering online formats is a drastically missed opportunity. With more and more competitors also seeking e-commerce revenues, Inditex can differentiate itself through the quality of its site. Uniqlo perhaps has the largest e-commerce expectations, and is expecting to capture 20% of its American revenues through the web, and does an exceptional job of incorporating innovative technology, interactive features, and appealing design into its website. H&M on the other hand is far more limited, and has delayed the launch of its US site until this summer. If Inditex can make a sizeable entrance into new online markets while optimizing web design, it can compete with the likes of Uniqlo and gain an advantage over H&M.

A second advantage to this strategy is the ability to reach customers in areas where Zara or other concept stores have yet to expand, or in areas where expansion is infeasible. Zara, for instance, has not penetrated the US market especially when compared to competitors since its designs, pursuit



of high-end storefronts, and lack of plus sizes limits its physical expansion to upscale metropolitan areas. By increasing e-commerce availability, Zara can better capture interested customers outside of these urban areas without undertaking risky and costly brick-and-mortar expansion.

Third, Inditex can gain a substantial advantage by harvesting and utilizing the real-time data captured by increased web traffic. Inditex is already an industry leader in the use of data and soft-feedback to improve product offerings and maximize sales. With store sales and customer comments reported to headquarters twice weekly and broken down by color and size, Inditex can tailor store offerings to almost exactly match demand. Online information retention gives the company a large supplemental collection of customer data and sale statistics to similarly improve design. By tracking which items were viewed, the conversation rates of these views to sales, which sizes were purchased, and any reviews left by customers, Inditex can determine which items to continue supplying, which to adjust, and which to stop manufacturing. Inditex could also use this data to track and predict trends. What's more, the age and location of viewers is also captured, which could allow Inditex to better predict which locations might be profitable for brick-and-mortar expansion. This type of geographic market information is only gained through online data generation, and was not possible before the mass rollout of its e-stores. By increasing the reach of its online presence, Inditex will not only increase sales, but will gain more valuable information with which to make decisions.

Given Inditex's current use of basic and primitive technology systems and that continued online roll-out will substantially increase shipping and distribution demands, it is advisable that Inditex uses some of its cash on hand to hire experts or to acquire a small specialized company to aid in this type of expansion. Zara's website is currently very basic and only moderately user friendly. Given this, it is also advisable that Inditex bring in a team of website design and social media experts, so as to be able to differentiate themselves on the quality of their website, as Uniqlo is currently doing. Inditex currently spends ten times less than competitors on IT, leaving room for an increase in spending in this area. The expenses of this type of acquisition and undertaking are an investment that will pay out in sales and customer retention. Greatly improving the quality of its online platforms is necessary even if it comes at the cost of opening fewer brick-and-mortar stores than anticipated in the upcoming years.



Search engine optimization and marketing

It is also advisable that Inditex engage in both search engine optimization (SEO) and search engine marketing (SEM) to increase its customer base and product visibility. Currently, online shoppers must seek out Inditex ecommerce sites by typing in their web addresses, beginning their online shopping experience with a desire to search and buy specifically Inditex products and knowing about the company and brand. However, when online shoppers type in general searches such as “spring dresses” or “affordable fashion” into search engines like Google, Inditex sites are not returned in either the organic or paid results despite being the largest global fashion retailer. This means that while Inditex’s physical storefronts are designed to bring in shoppers new to the brand using the allure of their real estate and displays, Inditex’s online stores do not have the same opportunity to convert new users. SEO and SEM are a twofold approach to this lack.

The image shows a Google search interface for the query "affordable fashion". The search bar at the top contains the text "affordable fashion" and a magnifying glass icon. Below the search bar, it says "Search About 150,000,000 results". The results are divided into two columns. The left column is labeled "Organic" and contains several search results, including "What the Frock? - Affordable Fashion Tips and Trends" and "New In | The hottest fashionable clothing for Women and Men ...". The right column is labeled "Paid" and contains several advertisements, including "Designer Deals on MYHABIT - MYHABIT.com", "Mossimo Fashion", "G-Stage Women's Clothing", "Cheap Fashion Dresses", and "Vintage Affordable Clothing". Red arrows point from the "Organic" and "Paid" labels to their respective columns of results.

Source: Own Creation

First, the main search engines today use crawlers to find pages for their organic search. The presence and relevance of the search word itself, the number of other websites that backlink to a given page, and a handful of other factors are taken into account by the crawler when ranking and ordering which pages to return to the searcher. A 2011 study by Slingshot SEO reported that the website ranked first as a result of a Google query receives 18.2% of all click through traffic. The second, third and fourth receive 10.1%, 7.2%, and 4.8% respectively, while the others receive less than 2%.⁶³ Therefore, websites returned in the top 4 ranks after a query gain a huge advantage while the rest remain virtually unseen. Optimizing Inditex’s websites to rank higher in internet search results could include editing its content, HTML, and associated coding to increase the relevance of



specific search keywords, as well as promoting its site with bloggers and other channels to increase the number of backlinks.

Second, search engines and other affiliated web marketing entities allow companies to buy their way to the top of search results, using search engine marketing techniques. Google AdWords, for instance, allows marketers to bid on keywords, and the highest bidder will be ranked first at the top of the page. Typically the first or second highest bidders appear as the top two sites on search feedback and the next several highest appear on the left hand side. While Inditex has not typically spent money on advertising campaigns, search engine marketing is a more subtle form of marketing that will not stale or cheapen the brand. With Inditex currently spending 12 times less than the industry average on marketing, this is a channel they can afford and that aligns well with the company's value of prime store locations. Essentially, search engine marketing will buy Inditex access to prime web real estate, and allow it to attract and retain shoppers previously unfamiliar with its products.

EXPANSION OF MASSIMO DUTTI

With the threat of changing trends aligned with an increased demand and willingness to pay for higher quality items in mature markets, expanding the company's Massimo Dutti brand in these markets will both strengthen Inditex's brand portfolio as well as protect the company's market share if this change in consumer behavior continues to swell. Currently, Inditex's heavy reliance on Zara to generate two-thirds of overall revenue leaves the company vulnerable to large-scale changes in consumer demand, making the development of its other brands advisable. Stradivarius, Berksha and Zara have similar offerings and some overlap in core consumers, making them potential competitors to some extent if present in the same market. Pull & Bear offers more casual clothing, and the overall market opportunities are not as expansive. Massimo Dutti, however, while similar to Zara in some regards has a different value proposition than the other stores and is most aligned with the observed and predicted consumer desire for quality.

As Inditex's highest priced brand with a strong focus on quality fabric and materials, Massimo Dutti offers a collection of sophisticated and tailored clothing. Currently generating 7.1% of Inditex group sales, the Massimo Dutti concept also relies on prime storefront locations, but are

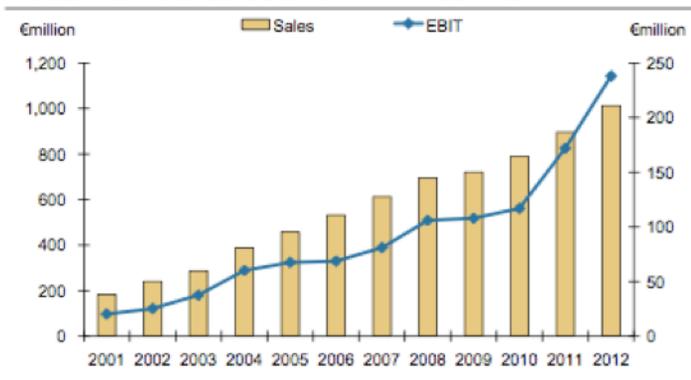


on average relatively small at about 250-300 square meters. The brand has the highest sales densities and RoCE of all Inditex retail formats, and has reached an EBIT margin of 23.5%. Massimo Dutti currently operates 630 stores in 60 countries, with room for expansion, especially in American metropolitan markets where the brand currently only has two stores located in New York and Washington, DC. In 2011 Americans bought 5.3% fewer garments than the previous year but spent 5% more on these items than in 2010, indicating that brands offering higher quality items such as Massimo Dutti have a growing position in the American market. By increasing the number of stores in the United States, in areas such as Los Angeles, Chicago, and San Francisco, Inditex can better compete with the Gap's Banana Republic. Gap currently generates 85% of its sales in the United States, a market Uniqlo is similarly targeting. Like Zara, Massimo Dutti will have a hard time breaking into the American mass market given sizing constraints and an even harder time due to its more formal style and higher prices, but can achieve success in upscale urban areas catering to modern professionals.

Massimo Dutti Store Locations				
Africa	Bahrain (2)	Belgium (23)	Netherlands (3)	Macedonia (1)
Egypt (3)	Israel (2)	France (21)	Sweden (3)	Malta (1)
Morocco (2)	Jordan (2)	Poland (19)	Ukraine (3)	Norway (1)
Asia	Kuwait (2)	Turkey (16)	Croatia (2)	Slovenia (1)
China (42)	Qatar (2)	Greece (12)	Serbia (2)	Americas
Saudi Arabia (12)	Syria (2)	Germany (11)	Andorra (1)	Mexico (33)
UAE (10)	Thailand (2)	UK (11)	Armenia (1)	Dom. Republic (2)
Lebanon (6)	Kazakhstan (1)	Italy (8)	Czech Republic (1)	United States (2)
Malaysia (5)	Taiwan (1)	Romania (7)	Georgia (1)	Canada (1)
Singapore (4)	Europe	Switzerland (6)	Hungary (1)	Costa Rica (1)
South Korea (4)	Spain (243)	Bulgaria (3)	Ireland (1)	Guatemala (1)
Indonesia (3)	Portugal (43)	Cyprus (3)	Latvia (1)	Puerto Rico (1)
Philippines (3)	Russia(24)	Lithuania (3)	Luxembourg (1)	Colombia (3)

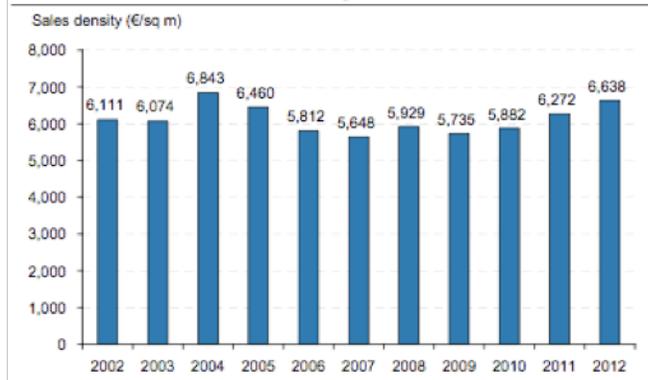
Source: Inditex Group – Stores Around the World (29)

Exhibit 23
Massimo Dutti sales and EBIT: 2001-2012



Source: Company data, Morgan Stanley Research

Exhibit 24
Massimo Dutti sales density: 2002-2012



Source: Company data, Morgan Stanley Research



As previously stated, the potential change in consumer behavior has had no visible affect so far on sales for large-scale fast fashion retailers such as Inditex. The demand for affordable style, especially among younger shoppers, will always be present. However, given Inditex's broad brand portfolio, it is in a unique position to hedge against this possible predicted trend by strengthening its higher-end concept, diversifying away risk. If the demand for quality continues, Inditex can simply shift lost sales in its more casual fast fashion brands to Massimo Dutti. If, however, the trend continues to be minimal, Inditex will still benefit from the development of Massimo Dutti through increased sales, market penetration, and less reliance on Zara given the strong financial performance of Massimo Dutti and untapped markets for expansion.



SOURCES

- ¹ "Inditex FY2012 Results Presentation"
- ² Ruddell, Geoff, and Anisha Singhal. *Inditex: An Introductory Guide*. Morgan Stanley, Print. Feb. 4, 2013.
- ³ Anaya, Suleman. "Inditex E-commerce Sales Soar." *BoF The Business of Fashion*. 7 Mar. 2013. <<http://www.businessoffashion.com/2013/03/inditex-online-sales-soar.html>>
- ⁴ Sales. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ⁵ Crofton, Stephanie, and Luis Dopico. *Zara-Inditex and the Growth of Fast Fashion*. High Point Univ. Print. 2012
- ⁶ Property. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ⁷ Zara. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ⁸ Hume, Marion. "The Secrets of Zara's Success." *Telegraph Fashion*. 22 June 2011. <<http://fashion.telegraph.co.uk/news-features/TMG8589217/The-secrets-of-Zaras-success.html>>
- ⁹ "Inditex: Who We Are - Zara." <http://www.inditex.com/en/who_we_are/concepts/zara>
- ¹⁰ "Inditex: Who We Are- Pull & Bear" <http://www.inditex.com/en/who_we_are/concepts/pull_and_bear>
- ¹¹ "Inditex: Who We Are – Massimo Dutti" <http://www.inditex.com/en/who_we_are/concepts/massimo_dutti>
- ¹² "Inditex: Who We Are – Berksha." <http://www.inditex.com/en/who_we_are/concepts/bershka>
- ¹³ "Inditex: Who We Are – Stradivarius" <http://www.inditex.com/en/who_we_are/concepts/stradivarius>
- ¹⁴ "Inditex: Who We Are – Oysho" <http://www.inditex.com/en/who_we_are/concepts/oysho>
- ¹⁵ "Inditex: Who We Are - Zara Home" <http://www.inditex.com/en/who_we_are/concepts/zara_home>
- ¹⁶ Zara Home. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ¹⁷ "Inditex: Who We Are – Uterque" <www.inditex.com/en/who_we_are/concepts/uterque>
- ¹⁸ "Industria De Diseño Textil S.A. History." *FundingUniverse*. <<http://www.fundinguniverse.com/company-histories/industria-de-dise%C3%B1o-textil-s-a-history/>>
- ¹⁹ Morgan Stanley Inditex Report
- ²⁰ Track record. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ²¹ "Inditex Quarterly Results" <http://www.inditex.com/en/shareholders_and_investors/investor_relations/quarterly_results>
- ²² Swinney, Robert, and Gerard Cachon. *The Value of Fast Fashion*. Rep. 4th ed. Vol. 57: Management Science, 2011.
- ²³ Zara Case Study: Fast Fashion from Savvy Systems" <<http://www.flatworldknowledge.com/node/19554>>
- ²⁴ *Zara-Inditex and the Growth of Fast Fashion*, 2012.
- ²⁴ Store assortment. *Inditex: An Introductory Guide*
- ²⁵ "Fast Fashion Sustainability, and the Ethical Appeal of Luxury Brands" <<http://www3.nd.edu/~jsherry/pdf/2012/FastFashionSustainability.pdf>>
- ²⁶ Keeley, Graham. "Zara Overtakes Gap to Become World's Largest Clothing Retailer." *The Guardian*. N.p., 11 Aug. 2008. <<http://www.guardian.co.uk/business/2008/aug/11/zara.gap.fashion>>
- ²⁷ "Fashion Forward: Zara, Spain's Most Successful Brand." *The Economist*. 24 Mar. 2012. <<http://www.economist.com/node/21551063>>
- ²⁸ Petro, Greg. "The Future of Fast Fashion Retailing." *First Insight*. 19 Oct. 2012. <<http://www.firstinsight.com/blog/bid/234891/The-Future-of-Fashion-Retailing-Part-3-H-M>>
- ²⁹ Hansen, Suzy. "How Zara Grew into the World's Largest Fashion Retailer." *The New York Times*. N.p., 9 Nov. 2012. <http://www.nytimes.com/2012/11/11/magazine/how-zara-grew-into-the-worlds-largest-fashion-retailer.html?pagewanted=all&_r=0>
- ³⁰ Armstrong, Stephen. "The Son of a Railwayman Who Launched a Runaway Chain." *Telegraph Fashion*. 13 Aug. 2008. <<http://fashion.telegraph.co.uk/news-features/TMG3365113/The-son-of-a-railwayman-who-launched-a-runaway-chain.html>>
- ³¹ *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ³² Inditex today. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ³³ Anarsson, Egill. *Strategic & Financial Valuation of Inditex*. Rep: Copenhagen Business School, Print. 14 Apr. 2009.
- ³⁴ Massimo Dutti. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ³⁵ Inditex supply chain. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ³⁶ "Zara Owner Inditex to Keep Up Expansion." *The Wall Street Journal*. N.p., 21 Mar. 2012. <<http://online.wsj.com/article/SB10001424052702304636404577294850646407354.html>>
- ³⁷ Group Structure. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ³⁸ *Zara-Inditex and the Growth of Fast Fashion*, 2012.



- ³⁹ Store assortment. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ⁴⁰ "The Future of Fast Fashion." *The Economist*. 16 Jun. 2005. <<http://www.economist.com/node/4086117>>
- ⁴¹ *The Growth of Fast Fashion*, 2012.
- ⁴¹ Store assortment. *Inditex: An Introductory Guide*
- ⁴² "E-retail Spending to Increase 62% by 2016." *Industry Statistics*. 27 Feb. 2012. <<http://www.internetretailer.com/2012/02/27/e-retail-spending-increase-45-2016>>
- ⁴³ Dishman, Lydia. "Three Important Retail Trends for 2013." *Forbes*. Forbes Magazine, 17 Dec. 2012. <www.forbes.com/sites/lydiadishman/2012/12/17/three-important-retail-trends-for-2013/>
- ⁴⁴ Strategy. *Inditex: An Introductory Guide*. Morgan Stanley, Print.
- ⁴⁵ "Inditex Not Short of Growth." *The Wall Street Journal*, 13 Mar. 2013. <<http://online.wsj.com/article/SB10001424127887324392804578358592286275474>>
- ⁴⁶ Capozzi, Maria, and Renee Dye, Amy Howe. *Sparkling creativity in teams: An executive's guide*. McKinsey Quarterly, Print. April, 2011.
- ⁴⁷ "Inditex: Who we are" <http://www.inditex.com/en/who_we_are/stores?zone=HK>
- ⁴⁸ "Fashion Forward: Zara, Spain's Most Successful Brand." *The Economist*.
- ⁴⁹ How half the world shops: Apparel in Brazil, China, and India. McKinsey Quarterly, Print. April, 2011.
- ⁵⁰ "Inditex Growth Opportunities Presentation." 2012. <http://www.inditex.com/en/shareholders_and_investors/investor_relations/presentations>
- ⁵¹ "Fast Fashion Sustainability"
- ⁵² Maheshwari, Sapna. "Gap Gains With Zara Responding to Fast-Fashion Fatigue." *Bloomberg Businessweek*. 9 Nov. 2012. <<http://www.businessweek.com/news/2012-11-08/gap-gains-with-zara-responding-to-fast-fashion-fatigue>>
- ⁵³ Baigorri, Manuel. "Mango Mirroring Zara Challenges Europe's Wealthiest Man." *Bloomberg*. N.p., 25 Mar. 2013. <<http://www.bloomberg.com/news/2013-03-24/mango-mirroring-zara-challenges-europe-s-wealthiest-man.html>>
- ⁵⁴ Chu, Jeff. "CHEAP, CHIC, AND MADE FOR ALL: HOW UNIQLO PLANS TO TAKE OVER CASUAL FASHION." *Fast Company*. N.p., July 2012. Web. <<http://www.fastcompany.com/1839302/cheap-chic-and-made-all-how-uniqlo-plans-take-over-casual-fashion>>
- ⁵⁵ "Inditex Not Short of Growth"
- ⁵⁶ "McKinsey Quarterly, Strategy Practice"
- ⁵⁷ *How half the world shops: China*. McKinsey Quarterly.
- ⁵⁸ *How half the world shops: India*. McKinsey Quarterly.
- ⁵⁹ "Fashion Forward: Zara, Spain's Most Successful Brand."
- ⁶⁰ *The Economist*. 24 Mar. 2012.
- ⁶¹ "Digby Industry Statistics." <<http://www.digby.com/mobile-statistics/>>
- ⁶² "Three Important retail trends for 2013." *Forbes*.
- ⁶³ "How People Interact with Search Engines." *SEO Moz*. <<http://www.seomoz.org/beginners-guide-to-seo/how-people-interact-with-search-engines>>