

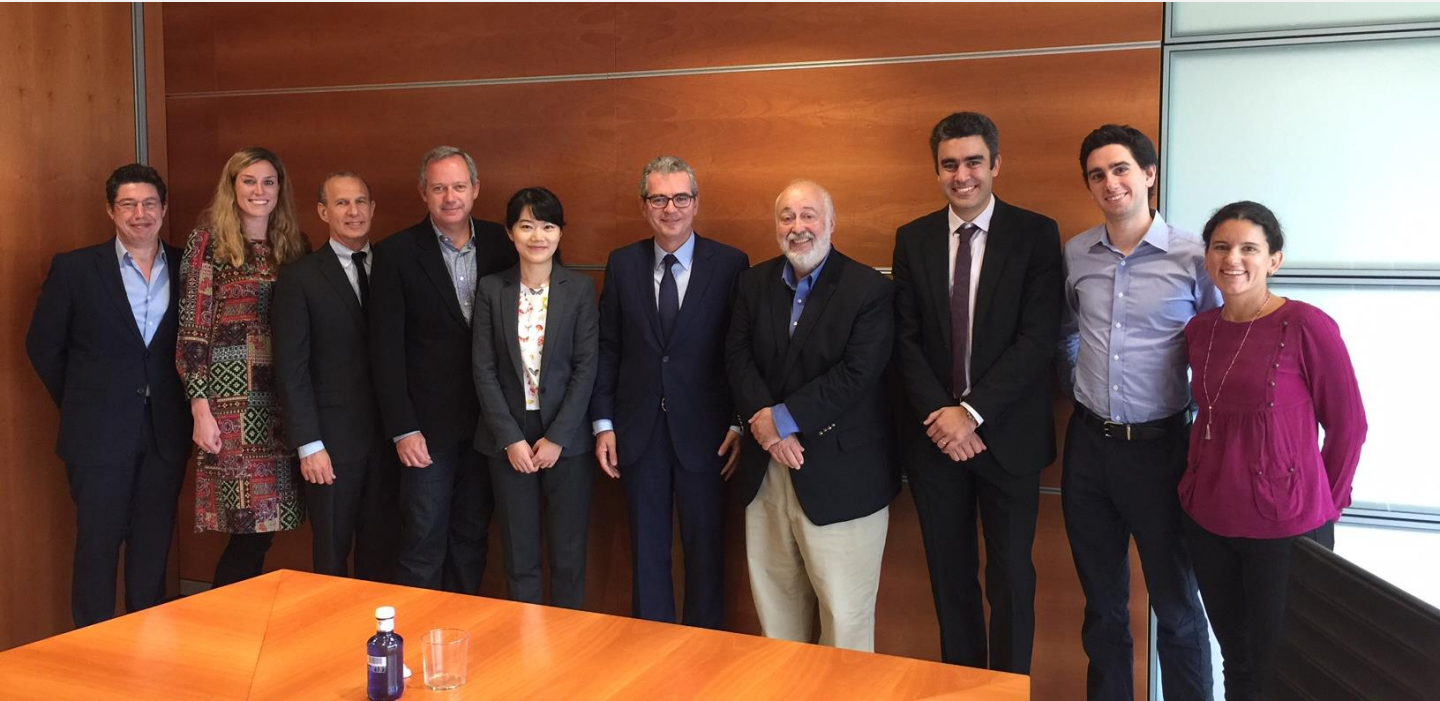


Inditex's headquarters in Arteixo, La Coruña, Spain (source: Inditex)

# FACULTY STUDY TOUR 2015

## La Coruña, Spain: Inditex, Zara

# PARTICIPANTS & HOSTS



**Jesús Echevarría** (Chief Communications & Corporate Affairs Officer, Inditex), **Megan Roesch** (Associate Vice President, Stifel), **Richard Jaffe** (Managing Director, Stifel), **Alessandro Carlucci** (Chairman, BSR & Former CEO, Natura), **Fanyin Zheng** (Assistant Professor, Columbia Business School - CBS), **Pablo Isla** (Chairman, President & CEO, Inditex), **Nelson Fraiman** (Professor of Professional Practice & Director, Deming Center, CBS), **Omar Besbes** (Associate Professor of Business, CBS), **Jacob Leshno** (Assistant Professor, CBS), **Angela Quintero** (Senior Associate Director, Deming Center).

# FACULTY STUDY TOUR 2015

## La Coruña, Spain: Inditex, Zara

In October 2015, faculty from Columbia Business School and members of the Deming Center Advisory Board traveled to La Coruña, Spain to tour the headquarters and facilities of Inditex: Zara and Zara Home.

The tour was hosted by **Pablo Isla**, Chairman, President & CEO of Inditex, **Jesús Echevarría**, Chief Communications & Corporate Affairs Officer of Inditex, and **Eva Cárdenas Botas**, Director of Zara Home.

The objective of the visit was to enrich the understanding of the Zara case, which was written by Columbia Business School professors in 2008 and is part of the curriculum of the MBA and EMBA Programs.

# INDITEX

## Key facts:

- 8 unique businesses/brands that operate independently
- Zara is the 30th most well-known brand in the world
- Pricing, markdowns and inventory allocations decided at headquarters
- Shared services behind the scenes keeps operating costs low and leverage corporate expertise in systems, logistics and sourcing

“Inditex has found that fashion is not unique to a market (the world is flat) and that fashion trends translate quickly and successfully to all markets. This has enabled their global expansion to 80 countries and this geographic and climatic diversity has been a benefit in spotting early indication of a trend.

With a lean quick turning inventory and a broad shallow assortment, management is able to maintain a markdown rate  $\frac{1}{2}$  that of the industry. Online is a growing component of the business; it appears to heighten demand, and stimulate traffic as well as generate sales online.”

Megan Roesch, Associate VP, Stifel and Richard Jaffe, Managing Director, Stifel

**“It was very impressive to see how the entire organization is set up. Inditex has multiple brands, and pretty much the only thing they have in common is the supply chain and organizational setup.”**

Jacob Leshno, Assistant Professor, Columbia Business School



“No matter where sourced, clothes come to Spain first – it’s an approach to managing risk, the company doesn’t know which stores are going to need the merchandise so the merchandise needs to be centrally located.” Megan Roesch, Associate VP, Stifel (picture source: Inditex)

# DESIGN

## Key Facts:

- Changing collection constantly / Creativity challenge
- In contact with stores to understand selling trends and customer demand
- New merchandise in stores twice a week
- +600 designers (all brands), +250 designers for Zara
- Collections differentiated by hemisphere

“There does not appear to be a single identity or look associated with the brand. Rather, the absence of a single identifying look or product is its strength as a great retailer and destination for the expression of our individuality and unique taste. The product is what drives the business, not promotions, sales, price or marketing.”

Megan Roesch, Associate VP, Stifel and Richard Jaffe, Managing Director, Stifel

**“Information about consumer taste is collected in store, then passed to commercial team at headquarters, then to designers. Quick design of new products is based on customer feed back on existing products.”**

Fanyin Zheng, Assistant Professor, Columbia Business School

“It was very impressive to see how they make sure that everything in the firm is aligned with the most recent demand information from the stores. I knew before that the designers are set up to work in short cycles and fast turnaround. Visiting there we saw that it's much more than that: even the open space layout of the office is set up so everyone is close to everyone, and information flows all the way back to the designers. ”

Jacob Leshno, Assistant Professor, Columbia Business School



Professors Leshno and Zheng



“We saw a combined collection of workers thinking about the clothes for the next week's collection, representing all sides of the company, including marketing and operations.”  
Jacob Leshno, Assistant Professor, Columbia Business School (picture source: Inditex)

# MANUFACTURING

## Key Facts:

- Production of trendy merchandise: close proximity (Spain, Portugal, Morocco) - 55%
- Production of basics (stable % breakdown over past 10 years): far east (China) - 45%
- Inditex has 1,625 suppliers selected by specialization and quality
- Inditex checks factories if subcontract to bad factories to mitigate reputational risks  
Megan Roesch, Associate VP, Stifel and Richard Jaffe, Managing Director, Stifel

“Basic items are manufactured in the far east while fashion items are produced mostly in Europe. Although production cost is higher in Europe, there are savings in supply chain costs which are important for high frequency shipping of new products.

**High growth in Asian market could lead to redesign of the supplier network.** Even fashion items may not be cheaper to be manufactured only in Europe anymore given the size of the Asian market.”  
Fanyin Zheng, Assistant Professor, Columbia Business School





Megan Roesch, Jesús Echevarría  
and Richard Jaffe



Picture source: Inditex.com



Professor Fraiman

# LOGISTICS

“Each store receives two shipments of new products every week. No inventory is held at the store. The assortment of products is different for each store. This allows the assortment of products at the store to vary with local demand.

Stocking of raw materials at distribution center is also important for frequent fast production of new products. Multiple brands share distribution centers and shipping but also compete with each other. Distribution centers are all in Europe.”

Fanyin Zheng, Assistant Professor, Columbia Business School

“No matter where sourced, clothes come to Spain first – it’s an approach to managing risk, the company doesn’t know which stores are going to need the merchandise so the merchandise needs to be centrally located.

The store handles the order but final decision is made by the Commercial team in HQ. Only 48hs pass from commercial decision until the order gets to the store.

**Low cost trucking is used for approximately 70% of shipments, and high cost air freight is reserved for the trend right, fastest turning merchandise.”**

Megan Roesch, Associate VP, Stifel and Richard Jaffe, Managing Director, Stifel

“I already knew about their supply chain, but it was impressive to see how the flow of garments is resorted into really small assortments for each. For example, a store gets only 2 blue shirts of each size.”

Jacob Leshno, Assistant Professor, Columbia Business School



# MARKETING

## Key Facts:

- Daily sales analysis
- Customer feedback – associates trained to listen to customers
- Inditex has 6,777 stores and open about a store per day
- Slow and deliberate expansion

**“I knew that Zara doesn't advertise, but in the trip we saw how this is a fundamental part of at the company's strategy, and consistent throughout the entire company.** Starting from the fact that they are set up to answer demand via the fast supply chain, following with the placements of stores in central location and the meticulous attention to the store setup. And the most surprising one, is that store managers are given incentives so they will be aligned with consumer demand; for example, store managers do not know the margins on different items.”

Jacob Leshno, Assistant Professor, Columbia Business School

“Markdowns occur at the end of the season. 15-20% of total assortment is marked down. Management will first try to reallocate merchandise to another local store that's selling the item. If it is a fashion miss the item is returned to headquarters then reallocated at the end of season sale.”

Megan Roesch, Associate VP, Stifel and Richard Jaffe, Managing Director, Stifel

“As online sales grow, the locations of the distribution centers might become more important. This reminded me of how Amazon redesigned its distribution network in the US and through which obtained significant cost saving.”

Fanyin Zheng, Assistant Professor, Columbia Business School



“It was very impressive to see the mock stores in the headquarters, and how they centrally design the way all shops and display windows are set up.” Jacob Leshno, Assistant Professor, Columbia Business School  
(picture source: Inditex)

# ZARA HOME

"The group met with Eva Cárdenas, the Director of Zara Home. Zara Home has grown 42 percent in the last three years, the highest growth rate of all Inditex's brands – from 317 million euros in 2011 to more than 548 million in 2014. Ms. Cárdenas who is clear sighted, brilliant and insightful shared with us her challenges for continuous growth."

Nelson Fraiman, Professor & Director, Deming Center, Columbia Business School

“Zara has proven that it is possible to operate in a “just in time” fashion in apparel retail, and is now proving that the same is possible for Home stores.

**It was interesting to witness the structured approach taken by Zara Home to dispatch its inventory to stores twice a week**, from the evaluation of store potential for the various categories of products, to the optimization of store inventory allocation decisions at the sku level.“

Omar Besbes, Associate Professor of Business, Columbia Business School



Professor Besbes  
and the group in the back



Faculty Study Tour participants with the Zara Home team

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