Inditex

A company analysis with focus on growth

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Abstract
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Title: Inditex - A company analysis with focus on growth

Background and problem: Inditex is a company that has grown substantially since the launch of the first Zara store. In the last decade, it has increased its sales approximately five-fold. Even through economic declines, Inditex has managed to grow. The first Zara store opened 1975 in La Coruña, Spain. Today, 36 years later, Inditex operates 8 brands, in 77 countries with a total of 5,044 stores spread over Africa, Asia, Europe and North and South America. It has managed to expand, while maintaining its profitability and strong finances. This is interesting as not all companies manage to do this.

Purpose: The research purpose is to establish the factors that have enabled Inditex’s success and substantial growth, as well as to examine if these factors still make it possible for Inditex to expand further.

Scope of research: This study focuses on the internal workings of Inditex. Therefore, it ignores most external factors, however, some external factors considered are Inditex’s suppliers, the fashion market and e-commerce.

Method: This study is conducted by using existent theories in the field of business economics and applying these on the empirical findings. We use both quantitative and qualitative research methods, for a greater understanding. The qualitative method is used when analysing textual material while the quantitative method is used for financial and other numerical data. This study is solely based on secondary data. However, we do present some earlier, personal observations.

Analysis: The subjects analysed in this thesis are associated with Inditex’s personnel, products, brands, supply chain and finances.

Conclusions: We have come to the conclusion that most internal factors of Inditex’s success remain. However, there have been changes in its supply chain over time, possibly as a result of external factors. Inditex’s financials are stronger now than a decade ago and should not be a limiting factor of its growth. Additionally, there may be external factors affecting Inditex’s growth.

Further research: A few external factors are identified as possibly having an effect on Inditex’s growth. These could be the subject for further research. A couple of these are the possibility of market saturation, competition and barriers of entry for international expansion.
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Chapter 1 - Introduction

This chapter first gives an overview of the study’s background, which is the basis for the problem discussion, this in turn leads to the research question. Thereafter, the purpose of the research and the scope of research are presented. The chapter ends with a continued outline of the thesis.

1.1 Background

Companies are naturally affected by the business cycles, even non-cyclical companies are affected to a certain degree. Some companies, however, are affected to a very low degree. Such a company is Industria de Diseño Textil, S.A. (henceforth referred to as Inditex) which has experienced substantial growth in the last decade. It has increased its sales approximately five-fold during this period, which is much more than the clothing sector average. Even through recessions, Inditex has continued to grow.

The first Zara store opened 1975 in La Coruña, Spain, founded by Amancio Ortega Gaona, who had already been in the clothing manufacturing business since 1963, owning several factories. In 1985, Inditex was formed as a holding company for Zara and the other companies in the group. The first time it opened a store abroad was in 1988 in Oporto, Portugal, followed by stores in New York, USA in 1989 and Paris, France in 1990. Inditex expanded its range of brands in 1991 by founding Pull & Bear and acquiring 65% of Massimo Dutti (in 1995 it acquired 100%). Since then the group has continued its expansion by establishing stores in new countries as well as the countries it was already present in, and also by acquiring Stradivarius and launching several new brands (Bershka, Oysho, Zara Home and Uterqüe) (Inditex, 2011c).

Today Inditex operates in 77 countries with a total of 5,044 stores spread over Africa, Asia, Europe and North and South America.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Range</th>
<th>Target Audience</th>
<th>Stores</th>
<th>Countries</th>
<th>% Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zara</td>
<td>Latest fashion clothes</td>
<td>Women, men and children Age: 0-45</td>
<td>1,723</td>
<td>77</td>
<td>64.6%</td>
</tr>
<tr>
<td>Pull &amp; Bear</td>
<td>Casual and urban fashion</td>
<td>Women and men Age: 14-28</td>
<td>682</td>
<td>46</td>
<td>6.8%</td>
</tr>
<tr>
<td>Massimo Dutti</td>
<td>Modern fashion from casual to elegance</td>
<td>Women and men Age: 25-45, children</td>
<td>530</td>
<td>50</td>
<td>7.2%</td>
</tr>
<tr>
<td>Bershka</td>
<td>Daring, urban and fun fashion</td>
<td>Women and men Age: 13-23</td>
<td>720</td>
<td>50</td>
<td>10%</td>
</tr>
<tr>
<td>Stradivarius</td>
<td>International fashion: informal and imaginative style</td>
<td>Women Age: 15-25</td>
<td>593</td>
<td>43</td>
<td>6.2%</td>
</tr>
<tr>
<td>Oysho</td>
<td>Lingerie and intimate fashion</td>
<td>Women Age: 15-25</td>
<td>432</td>
<td>25</td>
<td>2.4%</td>
</tr>
<tr>
<td>Zara Home</td>
<td>Contemporary home linens and decor</td>
<td>Household</td>
<td>284</td>
<td>27</td>
<td>2.4%</td>
</tr>
<tr>
<td>Uterqüe</td>
<td>Sophisticated accessories and fashion complements</td>
<td>Women</td>
<td>80</td>
<td>16</td>
<td>0.5%</td>
</tr>
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Table 1. Concepts (source: Inditex, 1998-2010; Ghemawat & Nueno, 2006)
1.2 Problem discussion
It is clear that Inditex has expanded through the continuous establishment of new stores, both domestically and abroad. It has managed to do this while the sales and profits have continued to grow almost every year. This is interesting as it is quite common for a company’s profitability and finances to suffer from such extensive expansion.

1.3 Research question
The above problem discussion leads to our research question:

- What are the underlying reasons for the substantial growth of Inditex and is it possible for it to continue?

1.4 Research purpose
The purpose of this study is to conduct an analysis of Inditex to establish the factors that have enabled its substantial growth. We want to see if these factors still make it possible for Inditex to expand further, which would be interesting from an investor’s point of view.

1.5 Scope of research
In terms of annual reports, we limit our research to those reports dating back to 1998, as older reports are not available. We do not fully analyse everything from every report in detail, but instead chose information that we find interesting, e.g. remarkable events such as the launches of new brands or occurrences of large-scale organisational changes. Financial data and ratios, which stay mostly the same over the years, are dealt with briefly and not in detail for each individual year. Instead, we look at the financial and other data to see the development of these numbers over time.

As Zara is the first and largest brand of Inditex, it is the brand that has the highest impact on the Inditex Group. There is also more available existing research on Zara. Much of this research extends what Inditex writes about itself in its annual reports, and evidence suggests that this also applies to the other brands as well. Consequently, we have chosen to focus more on Zara than the other brands.

This is a company analysis, and as such, we focus on the internal workings of Inditex, and very little on external factors. The few external factors that are briefly addressed are the fashion market, suppliers, and the development of e-commerce. Neither are any comparisons with other companies made.
1.6 Outline of the thesis

The first chapter gives the readers a background to the study and presents the research question as well as the purpose of this thesis. In the second chapter, the method of the study will be presented, in which the research approach and different methods used to collect and process data will be described. In the third chapter the theoretical framework will be provided, which consists of different theories in business economics, needed to analyse the empirical data presented in the fourth chapter. The following chapter consists of an analysis of the company, which leads to the final chapter where conclusions and recommendations for further research are presented.
Chapter 2 - Method

This chapter first describes the authors’ research approach and the research methods that are used in the study. Thereafter, the way of collecting the different data and how the gathered information was compiled is presented. Furthermore, a discussion about the study’s credibility and a description of the practical approach is provided.

2.1 Research approach

In this thesis, we use existent theories in the field of business economics, which are described in the theoretical framework. In the analysis, we apply these theories to the empirical data and attempt to explain this data with the use of the theories. However, it is difficult and almost unavoidable not to interpret the collected data based on our own experience and knowledge, especially when it comes to qualitative research.

2.2 Research method

We use both quantitative and qualitative research methods in our study. We use a quantitative method for the collection and analysis of the financial and other statistical data of Inditex. The qualitative method is used when analysing textual material such as the text in annual reports, previous research, articles and literature etc. This is done for greater comprehension, as we find that a company cannot be analysed purely quantitatively. However, we do not conduct any qualitative data collection ourselves, i.e. via interviews, focus groups etc. We do, however, have previous experience from visiting different stores of Inditex.

2.3 Data collection

In this study, we use only secondary data, i.e. already existing data. As this study is a company analysis, it features comprehensive data regarding a number of different aspects, and it would therefore be too complicated and time consuming to collect primary data for all of the matters analysed. Consequently, due to these time constraints, we chose not to create any primary data of our own. However, we do present some earlier, personal observations.

The secondary data that we use is, to a large extent, Inditex’s annual reports and other information acquired from the company, such as public information available from its website. Furthermore, the empirical data is based on literature and both academic- and non-academic articles. As for the theoretical framework, it is based on academic articles and literature.

2.4 Credibility

2.4.1 Criticism of the sources

Regarding the annual reports, we must consider that these are compiled by the company for third parties in a way that tries to present the company in the best manner possible, within legal boundaries. This applies not only to annual reports but all information released by the company. Due to this, we take a critical approach to this information. However, the annual reports are consolidated in accordance with IFRS by an authorised auditor. Therefore, the numbers in the reports are likely to be reliable.

The academic articles used in this thesis are peer reviewed. The case studies as well as one of the books are written by professors, additionally, these sources are also used in the peer reviewed articles. Some sources which are not peer reviewed, nor written by professors, are used in other academic peer reviewed articles. Consequently, we consider all of these sources trustworthy.
Several of the sources that we use to describe Inditex are of such an age that what is written in them about Inditex may no longer be true. Therefore, we ignore the kind of information that we consider having the greatest likelihood of being changed. We find that this kind of information is of such a nature that it is rarely of any high importance anyway.

2.4.2 Validity and reliability
In many cases, several of our sources which are based on direct observations and communication with Inditex, do report the same information. This enhances our study’s validity. In the analysis and conclusions in this thesis, we are careful about drawing conclusions of different relationships, namely, whether it is solely $a$ that affects $x$, as there could be an additional $b$ that also affects $x$. Therefore, we give multiple suggestions of relationships, and not a definite answer.

As this study uses secondary data, which is available for anyone and will not change, anyone could be able to do the same study again with the same data. Consequently, it increases this study’s reliability. However, the conclusions drawn from the data rather depends on how one interprets it due to experience and knowledge.

2.5 Practical approach
To get an understanding of Inditex, we have chosen to gather information from Inditex’s annual reports, Inditex and its brands’ websites, as well as literature, previous academic research and articles. During the process of the study, we have received advice and reading recommendations from our supervisor.

The choice of the triangle model as part of the theoretical framework was based on that we wanted to be able to analyse all internal aspects of the company, and do so freely. Consequently, this excludes many frameworks which focus solely or partly on external factors. The choice of the theory on the agile supply chain was based on that we found it applicable to many aspects of Inditex. The financial ratios used were chosen as they are quite fundamental and covers a lot of the financial aspect of a company.

To find previous research on Inditex, we used different databases, such as Emerald, ScienceDirect and EBSCOhost, as well as Google Scholar. The keywords that we used were ‘Inditex’ and all Inditex’s brand names. We did not find any academic research focused on any of Inditex’s brands other than Zara. Neither did we find any research on Inditex as a whole. We also browsed through the references of the material that we found, to find more material and the original sources.

After collecting the material, we screened it, and sorted the information that we considered as relevant to the study. Thereafter, we read the material thoroughly to get acquainted with it. Then we were able to compile it and write about it, simultaneously analysing the material.

As for the financial data, it was continuously collected during the whole time of the study, mostly from Inditex’s annual reports as well as its website, and compiled in an excel spread sheet to create graphs of the data. The price data of different items of Zara in various countries was collected from its website. The items were selected manually based on their price, to cover items over a wide price range.
Chapter 3 - Theoretical framework

This chapter initially describes the different theories needed to understand the empirical material that follows in the next chapter, as well as provides the framework that is used in the analysis. The chapter begins with a description of the triangle model and the agile supply chain. Finally, different financial ratios are presented.

3.1 The triangle model

The triangle model is used to give an understanding of a company by adapting and applying the three different components; subject, object and finance to the company. The subject is comprised of the company’s personnel and their competence. The object component describes the company’s product(s) or services, and in some cases its production facilities. The finance component describes the company’s financial situation, such as the capital structure and financial ratios.

While other business economic models usually focus on just a part of the company or its environment, the triangle model attempts to describe all aspects of the company, although it ignores its environment. Therefore, it is solely focused on the internal aspect of a company and ignores information regarding competitors, creditors, customers, suppliers and the state (Jansson, 2008). The triangle model does not contain any specific theories about its components, nor does it describe exactly how to analyse these. It is rather up the user of the model to decide what issues to study in each of the components and what theories to apply.

In a company analysis, it is important to analyse its human resources in order to understand the company, but it is also important to analyse the financial aspect. A company’s identity emerges from the interaction between its financial situation and its daily operations. The internal processes of a company are often referred to as the operation. It is in the internal processes that resources and actions are united. Therefore, the personnel in a company are both subject and object to a certain degree. The external processes are referred to as the finance. Financial resources are generally used to regulate external conditions, but it can also affect the internal conditions. The financial situation enables what the company’s management team consider possible for the organisation (Polesie, 1990). Therefore, the operation concerns the personnel and their duties, while financial reasoning is based on money. However, the operation depends on the company’s financial flows and vice versa (Polesie, 1995). Consequently, operation and finance are different aspects of a company and enable it to succeed. The operation and the finance complement each other.

Figure 1. The triangle model (source: Jansson, 2008; Polesie, 1995)
3.2 The agile supply chain

Christopher et al. (2004) state that the fashion market shows the four following characteristics:

- **Short life-cycles**: products will only be saleable within months or maybe just weeks.
- **High volatility**: the demand for the products is affected by factors such as the weather, movies and celebrities.
- **Low predictability**: it is hard to predict demand within a given period, even harder for smaller time frames and for specific products.
- **High impulse purchasing**: the consumer often does not plan purchases in advance. Instead, the consumer is stimulated to buy the product as he or she sees it in the store.

Historically, most companies have had forecast driven supply chains. Taking into consideration the characteristics of the fashion market, it has been understood that fashion and demand for specific fashion products cannot be forecast. In these markets, detecting trends, designing and manufacturing products, and getting them into the stores as fast as possible is now crucial for success. Conventional supply chains used for mass production with lead times of up to 12 months are unsuitable for the fashion industry, such supply chains will suffer several problems (Christopher et al., 2004).

Being slow to the market will make a company miss a substantial sales opportunity while a trend is hot. As the trend dies and demand falls, there is also the risk of obsolescent stock, and consequently, forced markdowns. This over-stocking is not the only issue; under-stocking can be problematic as well. If a certain trend is hotter and more sales than anticipated are generated, stores will run out of stock and a slow supply chain will not be able to deliver more of the demanded products fast enough. The disadvantages associated with a conventional supply chain create the need for an agile supply chain (Christopher et al., 2004).

The concept of an agile supply chain is about responsiveness, the ability to respond quickly to changes in consumer demand, both in terms of volume and variety. While conventional supply chains are forecast driven, agile supply chains strive to be demand driven. According to Christopher et al. (2004), the agile supply chain is:

- **Market sensitive**: Reading and responding to real demand
- **Virtual**: Shared information between supply chain parties
- **Network based**: Close but flexible relationships with a network of suppliers.
- **Process aligned**: Seamless connections between the network members.

Being *market sensitive* starts with the detection of the latest trends. To accomplish this, fashion retailers can, among other things, visit competitors’ stores, fashion shows and other places to observe what people are actually wearing (Christopher, 2000). By daily analysing point-of-sale (POS) data, companies can read and respond to real demand directly. In the case of products where the intention is to continue producing them, the POS data is used to determine
replenishment quantities. In situations with products whose selling season is intended to be very short so that its stock need not be replenished, the POS data is used to analyse trends. It is also possible for store personnel to communicate with customers in stores and personally identify their preferences (Christopher et al., 2004).

What Christopher et al. (2004) mean by virtual is that in the agile supply chain, all parties are connected and integrated, having access to, and working with the same numbers and information on real demand. Historically, this has not been the case as very few retailers have shared its POS data with its suppliers. By sharing information, retailers can achieve “higher levels of on-the-shelf availability” (Christopher et al., 2004, page 370) with less inventory. Additionally, reductions in transaction costs can be accomplished if the retailer and its suppliers choose to utilise a co-managed inventory (CMI). Under a CMI agreement, the retailer and the supplier agree to let the supplier control the replenishment of the retailer’s inventory and distribution system. The parties cooperate so that the retailer sends its sales data to the supplier so that the supplier can keep the retailer’s inventory at a desired level (Christopher et al., 2004).

A company with a network based supply chain makes use of close but nevertheless flexible relationships with a network of suppliers. Unlike the traditional supply chain ideas which advocate long-term relationships with a small number of suppliers, an agile supply chain should make use of a wider network of suppliers. It is flexible in the sense that the company can dynamically choose which suppliers to work with at any time, so that it can at all times use only the suppliers needed, which could often vary with seasonal influences among a multitude of factors (Christopher et al., 2004).

In the fashion industry, process alignment is crucial for the ability to respond to quick changes in fashion. By process alignment, Christopher et al. (2004, page 372) refer to “the ability to create ‘seamless’ or ‘boundaryless’ connections”. This means that no delays should occur in conjunction with the transactions between different stages in the supply chain, neither within the company nor between the company and other parties in the supply chain. The transactions and communication in a process aligned supply chain are likely to be paperless, the communication instead being carried out over the Internet (Christopher et al., 2004).

For a company to be able to be agile and use an agile supply chain, it can no longer rely solely on offshore suppliers from low wage countries. The use of such suppliers has several inherent, hidden costs. These costs are usually not anticipated by the company at first, but they almost always occur. According to Christopher et al. (2004, page 373-374), the following are examples of such costs:

- the various initial investments to establish the new source of supply, control of quality and delivery variables;
- high initial training costs, coupled with a high staff turnover affecting both throughput and quality;
- significantly lower operator efficiency offshore;
- irrevocable letters of credit charges;
- delays at the port of entry, last minute use of air freight and other logistics costs;
- expensive administrative travel to correct problems; process inefficiencies and quality problems;
- long lead times and the need for large buffer inventories; and
- the not insubstantial human cost involved in the conditions endured in many foreign factory environments often employing child labour and over-using natural resources.
Christopher et al. (2004) also suggest that if a company makes use of domestic suppliers with quicker response times, as opposed to offshore suppliers with slower response times, it will allow it to respond quicker to customer demand and therefore benefit from a faster inventory turnover. The faster turnover will increase the gross margin return, and this partly, or fully offsets the extra costs of using quick response suppliers.

3.3 Financial ratios

For a going concern, growth of production and sales are essential. Growth requires capital, a company’s ability to grow depends on the ability to finance the growth. The ability to finance this growth depends on the return. The return affects both growth of equity and the company’s ability to increase its liabilities. These correlations have an eminent significance and are important to analyse (Johansson, 2005). Therefore, a financial ratio analysis is an excellent way to interpret the data in the financial reports by putting the numbers in relation to each other.

**Equity ratio** is a measure of a company’s financial strength. It shows to what degree the total assets are self-financed with the shareholders’ invested capital and to what degree they are financed with liabilities. The equity ratio can also refer to the long-term solvency and shows the company’s ability to withstand losses. The ratio is strongly related to the company’s profitability and growth (BAS, 2010).

\[
\text{Equity ratio} = \frac{\text{shareholder equity}}{\text{total assets}}
\]

**Liquid ratio** is a measure of the company’s current assets excluding inventory in proportion to the current liabilities. It is an important ratio because it shows whether a company can pay its short term liabilities and by which margin this can be achieved. A rule of thumb is that the liquid ratio should be over 100%. The liquidity reflects a company’s ability to pay its short term liabilities (Nilsson et al., 2002).

\[
\text{Liquid ratio} = \frac{\text{current assets-inventory}}{\text{current liabilities}}
\]

**Return on equity (ROE)** is a measure that shows the return that has been achieved on the shareholders’ capital during the year. The owners of a company have contributed with capital. The profitability of a company determines whether the shareholders will continue to invest or replace the capital. Therefore, return on equity is a measure that is used to attract new investors, and is a key factor for the company’s degree of self-financing (BAS, 2010).

\[
\text{ROE} = \frac{\text{net income}}{\text{average shareholder equity}}
\]

**Return on assets (ROA)** is a measure of profitability that is used to conduct an evaluation of a company’s operations to see if it gives an acceptable return on the assets that the company disposes (Nilsson et al., 2010). It is an important measure and includes almost all activities, which means that the measure reflects a significant part of the business (BAS, 2010). Return on assets focuses on the management of the assets and is unaffected by the company’s capital structure, i.e. the distribution of total assets between liabilities and equity (Johansson, 2005).
Return on capital employed (ROCE) is a measure that shows whether the return is enough to pay interest to the creditors, as well as to satisfy the owners' demand on return on equity. Return on capital employed takes into account only interest-bearing liabilities (Nilsson et al., 2010). Furthermore, it has become increasingly common to use return on capital employed as a complement or a substitute to return on assets (Johansson, 2005).

Inventory turnover is a measure of how many times an inventory update is realized during the year, and how long the storage period is. In trading- and manufacturing companies it is usual to tie up capital in inventories, therefore it is important to look at the inventory turnover (BAS, 2010). The goal for a company is to update its inventory frequently so it does not need to tie up much capital, which will also lead to keeping the storage period short.

Gross margin is a key measure of how profitable a trading company is since it relates to the gross profit in proportion to the company’s net sales. The gross margin is an adequate ratio for comparison between years or other trading companies. If a company has knowledge of a competitor’s gross margin, it can calculate average procurement prices and the average markup on the purchase price (Nilsson et al., 2010).

EBITDA (Earnings before interest, taxes, depreciation and amortization) margin is a measure that uses the EBITDA to approximately show how large the positive cash flow in the business is in relation to the sales. EBITDA is an approximate measure of the positive cash flow because it ignores depreciation, which is not associated with outflows. In a company analysis, cash flow oriented ratios are becoming increasingly important to the company’s stakeholders (Nilsson et al., 2010).

EBIT (Earnings before interest and taxes) margin is a measure of the surplus from the company’s activities and should cover the interest expenses while giving a satisfying profit. A company uses the EBIT margin to analyse operating income in proportion to sales over a given period, or to compare it to competitors’ EBIT margins in the same sector (Nilsson et al., 2010).

Net income margin is a measure of the net income (earnings after tax, EAT) in proportion to sales and is very interesting from an investor’s perspective because it indicates the percentage surplus of net sales (Nilsson et al., 2010).

\[
\text{ROCE} = \frac{\text{EBIT}}{\text{total assets} - \text{current liabilities}}
\]

\[
\text{Inventory turnover} = \frac{\text{cost of goods sold}}{\text{average inventory}}
\]

\[
\text{Gross margin} = \frac{\text{gross profit}}{\text{net sales}}
\]

\[
\text{EBITDA margin} = \frac{\text{EBITDA}}{\text{net sales}}
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\[
\text{EBIT margin} = \frac{\text{EBIT}}{\text{net sales}}
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\text{Net income margin} = \frac{\text{net income}}{\text{net sales}}
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Chapter 4 – Inditex

In this chapter, the empirical findings are presented, starting with a presentation of Inditex and a description of its history. Thereafter, Inditex today is presented followed by an explanation of its business model, as well as its different concepts. Furthermore, the chapter contains information specifically about the Zara concept. Moreover, the authors present their personal observations. Finally, an overview of Inditex’s financial situation is presented.

4.1 Presentation of Inditex

The Inditex Group is one of the largest fashion companies in the world, and operates in textile, design, manufacturing and distribution. The company is thus involved in every step in the creation of an item, from the moment an idea is hatched to when the item is in the customer’s hands. Inditex is comprised of eight different concepts; Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe, which constitute more than 100 companies. The key factors behind the company’s success are the positive reception of the concepts in various countries and Inditex’s unique business model. Its international success has been enabled through the approach Inditex has to fashion, which focuses on creativity, quality design, price and a rapid adaption to market changes. Inditex’s business model is based on innovation and flexibility, which goes hand in hand with its approach to fashion. At the year end of 2010, net sales were € 12,527 million and net income was € 1,732 million (Inditex, 2011b).

4.2 History

Amancio Ortega Gaona, born in 1936, started his career in the textile industry as an errand boy for a La Coruña shirntmaker in 1949. Working there, he learned how costs added up through the apparel chain. In 1963, he founded his own company, Confecciones Goa, and started manufacturing lingerie and nightwear (Burt et al., 2006; Ghemawat & Nueno, 2006). In 1975, a wholesaler cancelled a large order, in which Ortega had all his capital tied up. He thought he would go bankrupt so he had to open his own store to sell the lingerie. The store was called Zara. From this early ‘incident’ in his career, he learned that to be successful “you need to have five fingers touching the factory and five touching the customer” (Ferdows et al., 2004, page 106).

The concept was well accepted and Zara expanded to larger Spanish cities. During 1985, Inditex was founded as the parent company of the activities Ortega was involved in at the time. After a couple of years, Inditex began to focus solely on Zara and developed a fast distribution system that could manage the anticipated growth. In addition, in 1988, Zara opened its first store abroad. The store was located in Oporto, Portugal and shortly thereafter, Zara opened in New York, USA followed by Paris, France (Inditex, 2011c).

In 1991, the concept Pull & Bear was founded, and Inditex also acquired 65% of Massimo Dutti. The company continued to expand internationally and opened stores in Mexico, Greece, Belgium and Sweden. During 1995, Inditex acquired 100% of the Massimo Dutti Group (Inditex, 2011e).

The financial year 1998 was characterised by significant openings in various countries; Inditex entered the UK market by opening a Zara store in London; The first store in Asia opened, located in Tokyo; The company entered the largest retail market in Latin America, Brazil; Inditex also entered the largest European market, Germany. As a result, the international presence accounted for 46% of the total net sales during this year (Inditex Annual report, 1998). In 1999, Inditex had managed to maintain an average growth rate of the store sales at 26% over the last five years, due to the strong international expansion, which was estimated to remain at the same level for the following years as well (Inditex Annual report, 1999).
In addition to the entering of new markets, Inditex also continued to increase its numbers of stores in the countries that the company currently operated in. Another factor that contributed to the high growth was Inditex's autonomy in management, which allowed each brand to make decisions independently. However, they were synergised in terms of organisation- and knowledge management (Inditex Annual report, 2000).

On top of the international expansion of current brands, Inditex launched a new brand called Bershka, which was aimed at the urban young girl (Inditex Annual report, 1998). The company also acquired Stradivarius, which enabled the sale of 90 million garments in 1999. These garments were manufactured in Europe, mostly (87%) by Inditex’s own factories (Inditex Annual report, 1999). In 2001, Inditex was listed on the Spanish stock exchanges, allowing new shareholders to invest in the company (Inditex Annual report, 2001). During the same year Inditex also launched Oysho, a concept which solely focuses on lingerie (Inditex, 2011).

Inditex writes that, even though the economic climate was characterised by a downturn due to “the effect of the heavy depreciation suffered by Latin American currencies” (Inditex Annual report, 2002, page 10), and it was struggling with seasonal effects in terms of a long and warm summer in Europe, it continued to expand by launching the Zara Home concept (Inditex Annual report, 2003). Inditex also opened its first stores in Africa, which made the number of Inditex stores exceed 2,000 (Inditex Annual report, 2004).

In 2004, the financial results show a large improvement when compared to the weak results in 2003. Inditex claims that this growth was mostly characterised by the improvement in various margins attributable to price increases and less currency impact in the Latin American market, higher mark-ups and better inventory management (Inditex Annual report, 2004).

During 2005, Inditex states that it became a world leader in the fashion industry when it generated a turnover of € 6,741 million. Since then, the company has continued its spectacular growth (Inditex Annual report, 2005). Inditex points out that “it is possible to both grow and maintain profitability levels by making the most of the competitive advantages of our business model as the Group becomes larger and more complex” (Inditex Annual report, 2004, page 4). In the same year, Inditex began to prepare consolidated annual reports in the line with IFRS, International Financial Reporting Standards, replacing the Spanish GAAP (Inditex Annual report, 2005).\(^1\)

The year Inditex first ventured into the world of e-commerce was 2007, in which it launched the online store of the Zara Home concept (Inditex, 2011e).

In 2008, the economic climate was characterised by a turbulent environment and resulted in an economic downturn in several countries. Despite the decline in financial results for many companies, Inditex excelled by a strong expansion giving a ‘satisfying’ growth in sales. The growth was particularly substantial in the Russian market, as well as in the Eastern European markets. Other markets where the expansion was considerable were France and Italy. Inditex reached over 4,000 stores worldwide during the year and the company also launched its eighth concept, Uterqüe (Inditex Annual report, 2008).

\(^{1}\) This change in reporting standards have resulted in differences in several of the financial numbers that are dealt with in this study, although these differences are small and negligible in the context of this study.
4.3 Inditex today

Industria de Diseño Textil is the holding company of the eight different concepts. The company’s main activity is sale of fashion items such as apparel, footwear, accessories and household products (Inditex Annual report, 2009). Inditex is characterised by the successful international expansion that has been going on for more than two decades, making it a company with a significant presence on the international market compared to other companies in Spain. The international expansion began early in Inditex’s history. In 1988, the first Zara store opened in Oporto, Portugal. At that time, Zara had a total of only 60 stores in Spain. This expansion strategy permeates Inditex and has been transferred to all of the different concepts (Inditex Annual report, 2007).

The financial year 2010 was characterised by strong expansion and Inditex now operate on four continents; Europe, Asia, Africa and America, with 5,044 stores in 77 countries, which constitute a selling area of 2,587,648 square meters. There were 100,138 employees, whereof 79,079 are women and 21,059 are men. This international presence generates 72% of Inditex total store sales. The European market (excluding Spain) is the largest one and represents 45% of Inditex’s store sales (Inditex Annual report, 2010).

Since 2009, Inditex operates in every country in Europe. The Asia-Pacific region, especially Japan, China and Korea, is a part of the international expansion strategy due to the positive reception of the concepts in this area. As a result, “Asia is the area with the highest growth in store sales” (Inditex Annual report, 2009, page 214). Inditex also entered a joint venture enabling the company to open stores in India during 2010 (Inditex, 2011c).

During 2011, Inditex estimates that 460-500 new stores will be opened, whereof approximately 70% of these openings were already contractually secured at the time the annual report was written. At this time, Inditex also expressed an intention to open stores in Australia and South Africa in order to continue its global expansion (Inditex Annual report, 2010). In a press release from May 19 2011, Inditex states that they have now opened a Zara store in Sydney, Australia (Inditex, 2011c). To complement in-store sales, Inditex launched an online store for Zara in September 2010, which is present in 17 European countries at the time of writing. In the autumn-winter 2011, the aim is to launch an online store in USA and Japan. Additionally, during the second half of 2011, each of Inditex’s brands will have launched an online store in the European market. Eventually, Inditex will expand the presence of its e-commerce by launching online stores in other continents for all its brands (Inditex Annual report, 2010; Zara website, 2011). Online retail sales are growing around the world and is expected to continue growing (Forrester Research 2011; HUI, 2011). In 2004, 15% of European individuals had made purchases on the internet, in 2010, this number was 31% (Eurostat, 2011).
4.4 Inditex’s business model
Inditex claims that its fashion concept is linked to a well-developed management structure, which enables the fast growth of Inditex (Inditex Annual report, 1998). Inditex controls a big part of the value generation process, which includes design, production, supply chain management, logistics and retail sales. All of these steps in the process of producing an item are managed by each brand autonomously, but the sharing of various business matters leads to significant synergies (Inditex Annual report, 2001). There are five specific key elements that constitute the business model, which are the basis for all of the brands (Inditex Annual report, 2009).

4.4.1 Customer
In the Inditex business model, the customer constitutes an important part and is the focus of the company’s activities. From its inception, Inditex created a customer orientated and vertical integrated business model, instead of using a horizontally organised model with the customer at the end of the whole process. This integrated model puts the customer in the centre and is taken into account in every step of the decision-making process (Inditex Annual report, 2005). A vertically integrated production process and a flexible distribution process enable a quick response to the customers’ demands (Inditex Annual report, 2007). Inditex focuses on the whole shopping experience when it comes to satisfying the customers’ fashion desires, which means that the company pays considerable attention to the interior and exterior architectural design, as well as the location of its stores (Inditex Annual report, 2009).

Inditex does not provide any information regarding exactly how many customers that visit the stores, but the company has other indicators that can be useful when estimating this number. For example, there were 780 million items sold during 2009 by all of its brands combined. In addition, there is a different payment method in Spain, Mexico, Greece and Portugal where customers can use an Affinity card, which over one million customers had in these four countries during the beginning of 2010. During the same year, Inditex had over 55 million visits to the different brands’ websites combined with the Group’s website. In 2009, the Spanish Consumer Protection authorities received 4,344 complaint forms about the service and products in Inditex different brands located in Spain, which corresponds to one complaint per 56,201 items sold. This indicates a high degree of satisfaction among the customers, according to Inditex. (Inditex Annual report, 2009)

4.4.2 Store
The principal recruitment source in Inditex is its stores. They are located in the main cities, often in some kind of symbolic street and shopping area, which facilitates the accessibility (Inditex Annual report, 2007). There is also at least one store of each brand located in an avant-garde building with exquisite façades (Inditex Annual report, 1998).

The stores are seen as a meeting point that unites customers and fashion, therefore, they play a major role in the business model and are carefully designed after each concept. Inditex spends a lot of time on designing the interior of the store and its windows, as the store environment constitutes a big part of the shopping experience. Even the layout of the garments is carefully planned to facilitate the unification of customers and fashion. The idea is to bring the latest fashion trends to the customers, and new products are arriving at all the stores twice a week (Inditex Annual report, 2008).
4.4.3 Design & Production
All of the collections are created by each brand’s own design and sales teams (Inditex Annual report, 2008). The collections are both based on an analysis of the customers reactions on the different items in the stores, as well as the design teams own creativity (Inditex Annual report, 2007). In Inditex there are more than 300 designers and sales personnel in total (Inditex Annual report, 2009). The design teams work with the sales teams, which in turn work closely with the store teams. This direct and close contact enables an effective flow of information between the different teams, allowing quick adaption and changes to the collections (Inditex Annual report, 2005).

The production process is very important and many resources are continuously attributed to making the whole process increasingly effective. This in turn reduces the time factor, enabling a rapid response to customers’ demands. Another explanation behind the fast response is the fact that Inditex owns the majority of the factories in which the production is carried out, and that they are located nearby to the distribution centres (Inditex Annual report, 2008). Manufacturing is also carried out by 1,237 external suppliers, which Inditex has established long-term relationships with under the conditions that they follow acceptable business ethics (Inditex Annual report, 2009).

4.4.4 Logistics
The distribution process is created in regards to the customers and is therefore based on flexibility. Each brand has its own centralised logistics centre and each store can regulate the flow of products itself. It takes approximately 24 hours for a product to be delivered to a store in Europe after the receiving of an order in the distribution centre, while the delivery to America and Asia takes a maximum of 48 hours. Inditex prioritises the time factor over the costs associated with the production and distribution in order to keep the stores updated with the latest fashion trends and thereby satisfy their customers (Inditex Annual report, 2008).

4.4.5 Teams
Inditex uses a customer care model that is based on an open and direct contact between the customer and personnel. The idea is that the customers should feel comfortable and free in the stores, therefore, the personnel are made available but do not interfere unless assistance is asked for. This applies to all customers whether they have bought something or not. The personnel receive specific training, which focuses on customer service (Inditex Annual report, 2005).

The personnel at the different stores spread all over the world are characterised by the attitude passion for fashion which means that they share a universal language among the stores so that they can offer equal customer service. This attitude, according to Inditex, enables a unique shopping experience and gives satisfied customers (Inditex Annual report, 2000).

4.5 Concepts
All of Inditex’s brands share the same philosophy about a common clothing culture, which is enabled through continuous renewal of their range with focus on fashion, quality and price. Additionally, fast response to customer demand is an important element. This is made possible due to the advanced technologies in the manufacturing process and all the associated activities, such as design, distribution etc. An advantage is that most of the garments are manufactured in plants owned by Inditex (Inditex Annual report, 1998). The creation of the different concepts is
part of an international growth strategy with the aim of diversification (Inditex Annual report, 2009).

4.5.1 Zara
The first Zara store opened 1975 in La Coruña, Spain, before the Inditex group was formed. Now, 36 years later, Zara is present in 77 countries with 1,518 stores offering fashion for women, men and children in a selling area of 1,687,949 square meters. It has been a successful brand from the start and the net sales in 2010 were € 8,088 million, which represented approximately 64.6% of Inditex’s total, making Zara the leading brand in the group (Inditex Annual report, 2010).

The Zara concept is based on the idea of sharing the same clothing culture all over the world with a small adaptation to the differences between countries (Inditex Annual report, 1998). Furthermore, the concept takes into account its customers by shaping “ideas, trends and tastes developing in the world” (Inditex, 2011a).

Zara has taken the opportunity to create another shop window to present the latest details of new trends, which is through social networks and via its application for the iPhone and other smartphones (Inditex Annual report, 2009). In 2007, Zara was the first store of the Inditex group to launch a collection of maternity wear. Today, the Zara for mum line is available in all countries around the world in which the brand is present, offering a broad variety of garments (Inditex Annual report, 2007).

Zara’s headquarters are located in Arteixo, La Coruña, together with the main distribution centre (Inditex Annual report, 2000). In 2003, a logistics centre, called Plataforma Europa, was built in Zaragoza, Spain, to increase the flexibility of Zara’s logistics system, as well as to reinforce the distribution capacity, which enabled the expansion of Zara. The location of this centre increased the handling of international cargo due to the surrounding infrastructure and enabled a distribution capacity of 80,000 garments an hour (Inditex Annual report, 2003).

In 2008, Zara began to offer organic cotton products such as jeans, men’s t-shirts and other various clothes, as well as accessories in all of its stores. During the same year, Zara also opened an eco-efficient store in Athens, Greece (Inditex Annual report, 2008). Encouraged by the success of the eco-efficient store project, in 2009, Zara opened a store with a leadership in energy and environmental design (LEED) certification, which is an international classification of sustainable design. The store is located in Barcelona and was the first fashion store to obtain this seal in Europe (Inditex Annual report, 2009).

Kiddy’s Class was launched 2002 as an independent concept to strengthen Inditex’s presence in fashion. This concept is solely focused on the children’s segment, and offers the latest designs and quality apparel to affordable prices. Kiddy’s Class was previously integrated into Zara’s results. The stores are mainly located in Spain and Portugal (Inditex Annual report, 2002). In 2006, it also opened stores in Italy, France and Greece but under the name Skhuaban (Inditex Annual report, 2006). Today, Kiddy’s Class is not an independent brand, instead it is together with Zara Kids a part of Zara’s financial results (Inditex Annual report, 2007).

4.5.2 Pull & Bear
The first store of the brand Pull & Bear was launched in 1991, with the purpose of offering basic apparel only for men. Two decades later, Pull & Bear has expanded its range of products and now offer women’s fashion, perfumery, accessories and home decoration, attributable to the
philosophy that Pull & Bear stores should “offer what the client wants to buy at every moment” (Inditex Annual report, 1998, page 30). Today, the brand is comprised of 682 stores spread over 46 countries across the world with a selling area of 196,320 square meters. The net sales in 2010 were € 857 million, which represented 6.8% of Inditex’s total net sales (Inditex Annual report, 2010). The brand has its headquarters and logistics centre in Narón, La Coruña (Inditex Annual report, 2001).

The Pull & Bear concept is based on a casual and urban fashion style for the young people (Inditex, 2011a). In 2007, Pull & Bear started a blog on its website. This blog has become a meeting point for the global youth culture, a place where customers can be updated about the latest trends in fashion, music and visual arts (Inditex Annual report, 2007). They are also active on social networks such as Facebook and Twitter (Inditex Annual report, 2009).

During 2009 Pull & Bear created a major social project to strengthen the relationship with their customers. It was called the Pull and Bear world project, in which Pull & Bear compiles ideas of art, sport, social and environmental undertakings, and turns the best ideas into a real project. The reason was because Pull & Bear thinks that “music and chasing dreams are the common denominator of many young people” (Inditex Annual report, 2009, page 33).

The relationship with youth culture is also present in Pull & Bear’s environmental and charity projects. In 2008, the brand started the Pull and Bear forest project, which was created to prevent the felling of trees, and consequently, the brand stopped the publication of its catalogues on paper. The brand also participated in the reforestation of the Sierra Gorda biosphere reserve in Mexico, trying to compensate for the environmental effects caused by its catalogues. The project resulted in the plantation of 16,000 trees in the reserve with participation of Inditex employees based in Mexico. In addition, Pull & Bear has created an interactive micro-site where customers can learn about environmental issues through various games and advices (Inditex Annual report, 2008).

4.5.3 Massimo Dutti
The brand opened its first store in 1985 with only a line of clothing and accessories for men, but it was not until 1991 that Inditex acquired an interest (65%) in the brand. In 1995, Inditex acquired 100% of the brand and decided to increase Massimo Dutti’s range of products by offering women’s clothing as well. Its headquarters and logistics centre are located in Tordera, Barcelona (Inditex Annual report, 2000). Massimo Dutti operates in 50 countries across Europe, America, Africa and Asia with a selling area of 143,023 square metres spread over 530 stores. The net sales in 2010 were € 897 million, which represented 7.2% of Inditex’s total. (Inditex Annual report, 2010)

The Massimo Dutti concept is based on a universal design that is independent and cosmopolitan. The design represents men and women from the most urban style to a casual style. The design expresses comfort and adaptability. However, the idea of the concept is that with the right accessories, garments can adapt to any style and situation. Massimo Dutti’s clothes are for modern people and suitable for all occasions, from sober and practical during the day to more sophisticated and elegant during the evening (Inditex Annual report, 1998).

During 2003 the brand launched a collection for children called Dutti boys. In 2004, the brand expanded its range of children’s wear, offering clothes for girls as well. The collection is now called Dutti boys & girls. During 2004, Massimo Dutti also launched the personal tailoring
collection, which allows customers to design their own garments choosing their own fabric and colours (Inditex Annual report, 2004). In 2009, Massimo Dutti extended its range with a baby line, offering a collection of garments that are soft, comfortable and specially designed for babies (Inditex Annual report, 2009).

In 2002, Massimo Dutti started a project called for&from special people, which resulted in a store where the staff has mental disabilities. This project was complemented in 2007, by a store with personnel who have various kinds of physical handicap. The store was constructed with architectural adaptations to facilitate accessibility (Inditex Annual report, 2007).

In 2009, Massimo Dutti followed the footsteps of Zara by opening the first eco-efficient store of the brand. The store is located in Barcelona and received an energy classification A, which means that the store has reached the maximum level of energy efficiency. The improvements that had been done reduced the electricity consumption by more than 30%. This energy rating made Massimo Dutti a part of the eco-efficient store project and reduces the environmental impact of its stores by reducing CO2 emissions (Inditex Annual report, 2009).

4.5.4 Bershka
The brand was created in 1998 with the idea of a new concept that focuses both on the stores and fashion. At first, Bershka only offered daring clothes for females, but four years after its launch, the brand offered fashion for males as well (Inditex Annual report, 2007). The concept is a reference for the youth culture, customers typically being between the ages of 13 and 23. The headquarters are located in Palafolls, Barcelona (Inditex Annual report, 2009). Bershka is composed of 720 stores in 50 countries with a selling are of 262,009 square meters. The net sales in 2010 were € 1,247 million and represented 10% of Inditex’s total, which makes Bershka the Group’s second largest concept after Zara (Inditex Annual report, 2010).

The concept is based on a sociocultural shopping experience with a modern store environment. It creates the feeling of an urban and fun environment with a distinctive image. The stores are big, spacious and a meeting point for fashion, music and art with an environment that makes young people feel like they are in their own space. The customers can read magazines, listen to the latest music and the walls are covered with big pictures of graffiti (Inditex Annual report, 1998).

During 2008, Bershka followed in the footsteps of Massimo Dutti and opened its first store in the for&from special people project. The store was located in Barcelona and the staff were composed of people with learning difficulties (Inditex Annual report, 2008).

In 2009, Bershka reformed the concept by launching a new image of the brand called magic, meaning that the new stores were implemented with a new look. The concept was still aimed at offering the latest fashion trends and daring clothes to young people, but the store was now characterised by a digital world, expressed by dark colours, pale light and house-dance music. Bershka is also active on social networks, which enables innovative fashion lines that correspond to the demands of youth culture (Inditex Annual report, 2009).

4.5.5 Stradivarius
The brand was acquired in 1999 and offers clothes for young women in the ages 15-25. The fashion style is focused on the latest trends in international fashion and is characterised by an informal and imaginative style when it comes to design, fabrics and colours (Inditex Annual
report, 2000). Stradivarius operates in 43 countries with 593 stores spread over a selling area of 154,253 square meters. The net sales in 2010 were € 780 million and represented 6.2% of Inditex’s total (Inditex Annual report, 2010). Its headquarters and logistics centre are located in Sallent de Llobregat, Barcelona (Inditex Annual report, 2001).

In 2007, the brand renewed its concept through the launch of the commercial message; *take me or leave me*, which was shown in a few collections (Inditex Annual report, 2007). During 2009, Stradivarius expanded its collection to strengthen the total look offered to its customers, by broadening its line of accessories (Inditex Annual report, 2009). The brand has also integrated the website into its global image, which helps the international fashion image of Stradivarius (Inditex Annual report, 2008).

**4.5.6 Oysho**
The first store of the brand opened in 2001. Oysho offers the latest fashion trends in lingerie and intimate clothing for women. The brand has several segments such as underwear, sleepwear, swimwear, accessories, cosmetics, etc. Its headquarters and logistics centre are located in Tordera, Barcelona (Inditex Annual report, 2001). Oysho has 432 stores in 25 countries spread over a selling area of 60,474 square meters. In 2010 the net sales were € 304 million and represented 2.4% of Inditex’s total (Inditex Annual report, 2010).

In 2007, a collection for babies and girls, called my first Oysho, was launched. This collection of underwear is aimed at children between the ages of three months and nine years (Inditex Annual report, 2007). In addition, the brand launched a concept called *homewear*, which consists of leggings and other clothes that can be worn at home. In connection with the expansion of the product range, a renovation of the interior design of the stores was made to renew the image of Oysho (Inditex Annual report, 2008).

**4.5.7 Zara Home**
The first store of Zara home was opened in 2003. The brand offers typical, modern household products such as different linens, as well as decorative objects (Inditex, 2011a). The home concept follows the same philosophy as the other fashion concepts, which is a renewal of its range and designing products with quality to an attractive price (Inditex Annual report, 2003). Zara Home has 284 stores in 27 countries spread over a selling area of 72,748 square meters. In 2010 the net sales were € 294 million and represented 2.3% of Inditex’s total (Inditex Annual report, 2010). Zara Home has, together with Zara, conducted two projects, an opening of an eco-efficient store located in Barcelona and the launching of an application for smartphones (Inditex Annual report, 2009).

**4.5.8 Uterqüe**
The first store of the brand was launched in 2008, making it Inditex’s latest addition. Uterqüe specialises in sophisticated fashion complements and accessories with quality, which are made of recyclable material. The focus is on the latest fashion trends, combined with accessories. The concept is based on the interaction between accessories and fashion, making Uterqüe a meeting point. The brand offers handbags, footwear, jewellery and leather garments. Its central offices are located in Arteixo, La Coruña and it is the place where all of the products are designed by the brand’s own specialist team (Inditex Annual report, 2008). Uterqüe operates in 16 countries with 80 stores spread over a selling area of 10,871 square meters. The net sales in 2010 were € 59 million and represented 0.5% of Inditex’s total (Inditex Annual report, 2010).
4.5.9 Tempe
Tempe is not a brand per se, it is the company that specialises in design, manufacture and distribution of the footwear of all of the other Inditex brands. The brand was created in 1989 and started with a collection for children that was launched in a Zara store. Later on, the brand expanded its footwear collections to the other stores of Inditex. Today it has the capacity to produce approximately 40 million pairs of footwear annually, which it distributes to more than 4600 stores spread over 72 countries (Tempe website, 2011). The personnel that work in the different centres of the brand constitute more than 1,000 employees. The brand operates two Tempe Outlet stores, whereof one is within the for&from project. Tempe shares the same philosophy as the other brands in Inditex and has the same business model with a flexible production and a rapid distribution process. Tempe’s distribution centre is located in Elche, Alicante and has an area of 175,000 square meters. The main activities takes place in Spain, but the brand also has subsidiaries in Mexico, Brazil, China, India and Vietnam (Tempe, 2011a; Tempe, 2011b).

4.5.10 Lefties
Unsold garments of the other concepts end up in a store called Lefties. Originally, the stores sold garments solely from Zara and the concept was called Zara reduce, but later on it became an autonomous brand with several stores at different central locations under the brand Lefties. The garments originate mostly from Zara, but unsold garments from other Inditex brands may be sold at Lefties as well. The aim is that the brand from which the unsold garment came from shall remain unknown. Therefore, the personnel replace the original labels with Lefties’ labels. By creating this concept, Inditex practically does not end up with any unsold garments. In some cases, the unsold garments are given away to charitable organisations (Badía, 2009). In 2010, Lefties was present in Spain, Portugal and France with more than 100 stores and had its own logistics centre in Tordera, Barcelona (ACC1Ó, 2011).

4.5.11 Other concepts
Inditex has also launched a number of brands that turned out to be unsuccessful. The first failure was a brand by the name Often, which resembled the current brand Pull & Bear. During its life time, the brand opened more than 50 stores in Spain. Eventually it ended up as a failure and Inditex sold it. Today just a few of the stores remain, now called Friday’s Project. The second brand to prove unsuccessful was called Brezos. The brand’s concept was based on selling expensive apparel for women, like the Zara concept, and opened about five stores. Shortly after, the stores were transformed into Bershka, and Brezos was subsequently forgotten. The third brand that was unsuccessfully launched operated in the jeans segment and was called X-Dye (Badía, 2009).

4.6 Zara
Zara is the largest brand in the company and accounted for 64.6% of Inditex’s total net sales in 2010. It has a distinctive process of designing, manufacturing and distribution, as well as a unique supply chain, being able to design and get a new product delivered to Zara stores in four weeks in the case of an entirely new product, and two weeks in the case of a modification (Ghemawat & Nueno, 2006).

4.6.1 Design
Zara’s design centre is attached to Inditex’s headquarters in La Coruña. The design centre consists of three big halls, one for each product line; men, women and children. Unlike many
other companies, Zara does not save costs by using the same labour for all product lines, instead each line has its own dedicated staff members, from design to procurement (Ferdo
ws et al., 2004). There are around 250 designers working for Zara (Inditex Annual report, 2007), most of which are aged in their twenties, all employed because of their enthusiasm and talent (Ferdows et al., 2004).

By having the three design teams close to each other, the speed and quality of the design process improves. All the designers can effortlessly check on each other’s sketches. In the corner of each hall, there is a small prototype store set up where the designers can put their creations and receive feedback from their fellow designers and market specialists. The market specialists comment on the new designs’ style, fabric and colour etc. and can suggest retail prices. The procurement and production planners estimate production costs and available capacity, and can if needed, start the production of a new garment in a few hours (Ferdows et al., 2004).

The designers at Zara create about 40,000 new designs annually, of which around 11,000 are selected for production (Ferdows et al., 2004; Tungate, 2005), divided over about 12–16 collections, many more than the traditional fall and spring collections of many other companies (Tokatli, 2008). Some of the designs look similar to the latest haute couture, and Zara is often faster to the market than the high-fashion houses. However, Zara does not invent any trends of its own (Ferdows et al., 2004).

We don't invent trends, we follow them. Styles, colours, fabrics – we don't guess any of these things. We are a business catering to a demand, and we’ve never made any secret of that. But we need to know what the trends are, so we follow them through magazines, fashion shows, movies and city streets. We use trend-trackers and forecasting companies. We keep our eyes open (An Inditex press officer cited in Tungate, 2005, page 52).

In addition to this, they visit competitor’s stores, universities, pubs, cafes, clubs etc. to get inspiration and understanding of the latest trends, and what their target customers want (Christopher, 2000). The designers also receive a lot of valuable information directly from the Zara stores around the world. The sales personnel in the stores identify customers’ preferences and new ideas. By using handheld devices, the store managers can quickly contact the market specialists on the design floor and update them on what the customers demands. The design team can then use this information and quickly create new garments with the use of computer-aided design systems (Christopher et al., 2004; Ferdows et al., 2004). Even though the store managers have to deal with communication with the market specialists of all three product lines, which may be seen as superfluous work and more expensive, the communication is much faster because it is instantaneous, with no bureaucratic layers in between (Ferdows et al., 2004).

4.6.2 Sourcing & Manufacturing

Zara sources a lot of its fabric and other inputs from the Barcelona based Inditex subsidiary Comditel, which in turn deals with more than 200 external suppliers (Ghemawat & Nueno, 2006). Zara also sources ever more from the Far East (Ghemawat & Nueno, 2006), via its purchasing subsidiaries Inditex Asia in Hong Kong and Zara Asia in China (Tokatli, 2008).

About half of the fabric that Zara purchases is undyed, to facilitate the updating and creation of new garments within a season, often based on identified customer demand (Ferdows et al., 2004; Ghemawat & Nueno, 2006). Comditel handles the dyeing, patterning, and finishing of the undyed fabric. It is then sent to in-house as well as external manufacturers (Ghemawat & Nueno, 2006).
About 40% of the finished items are produced in-house, while the rest is manufactured externally in Europe, North Africa and Asia. The most complicated and fashionable products are the ones that tend to be manufactured in-house, as these are more time sensitive and require a higher level of expertise. Simpler garments, which are more price sensitive than time sensitive, as well as knitwear, are usually outsourced (Ferdows et al., 2004; Fraiman et al., 2002/2008; Ghemawat & Nueno, 2006). However, Tokatli (2008) argues that today even the more complicated fast fashion garments are outsourced and manufactured in countries such as Morocco, Turkey and India, even though Inditex still emphasizes that they produce very much in-house. Nevertheless, he also states that companies in these countries can now handle the manufacturing of high quality, fashionable products with the high degree of flexibility that Zara requires.

For the garments produced in-house, it is mostly the capital intensive production steps where cost savings due to economies of scale that are actually performed in-house, e.g. dyeing and cutting. The labour intensive steps like sewing and finishing of the products are laid out on a network of around 450 small workshops located in Galicia, Spain and northern Portugal. Most of these workshops employ around 20-30 persons each, and are specialised by production process or product type. The finished products are then sent back to Zara where they are quality controlled, ironed, labelled and packaged. Inditex is these workshops’ largest and most important customer, and consequently they usually keep long-term relationships, while Inditex provide them with technology and financial support etc. (Christopher et al., 2004; Ferdows et al., 2004; Fraiman et al., 2002/2008; Ghemawat & Nueno, 2006). Tokatli (2008) mentions that the persons working in the Spanish and Portuguese workshops historically used to receive very low wages, and that it is unknown whether these workshops paid social security premiums and taxes.

The production facilities seldom run at maximum capacity. Instead they operate just a single shift, so that they can ramp up production and meet both expected and unexpected demand increases when needed (Ferdows et al., 2004).

4.6.3 Distribution
The Zara stores receive shipments of items twice a week, which they can put on display immediately after receiving them as they are already ironed and some of them are shipped on hangers. Due to these constant shipments of new items, the Zara stores can hold less inventory than its competitors. The fact that Zara manufactures limited quantities of items and that the stores hold little inventory, minimises the risk of unsold items and the need for clearance sales. Zara can in turn collect a higher percentage of the full price than its competitors (Ferdows et al., 2004; Ghemawat & Nueno, 2006).

What items they receive is largely based on decisions from the store managers, who keep note of which items need replenishment due to popularity and missing sizes etc. (Caro et al., 2010; Ferdows et al., 2004). Once a week the store managers receive statements showing which items are available in the central warehouse, the available quantities are however hidden. The managers then send the requested shipment quantities to the warehouse. These numbers are then modified by the warehouse employees to be feasible considering the total remaining quantities at the warehouse and the requested quantities from each store.

Previously, this was done manually, but in 2007 Zara implemented a system that optimizes these numbers to maximize global sales by including a few more variables. Even though this optimization is performed by a complicated mathematical model, the employees still have to
manually enter the numbers received by the store managers into software to output the new, optimized numbers. At the time this system was implemented, it increased the sales by 3-4% and Inditex planned to implement it for its other brands as well (Caro et al., 2010).

4.6.4 Retailing & Store operations
In an underground area of Inditex's headquarters there is a street of multiple ‘pilot stores’ where the staff members can try out different window and store interior displays. They have variable lighting set up so that they can see how the store windows will look both at night and during the day. The window designs created there are then transmitted to Zara stores throughout the world so that they achieve a uniform look (Forbes.com, 2001; Tungate, 2005). In addition to these often updated window designs, around every four years, the Zara stores get a revamp where extra attention is given to façades, interiors and window displays (Ghemawat & Nueno, 2006; Tokatli, 2008). Making sure the stores look its best is basically the only marketing Zara does, as it barely spends anything on advertising at all, no posters, no print nor any TV ads (Tungate, 2005). Besides this, Zara relies on word of mouth (Fraiman et al., 2002/2008). The reason why Zara barely spends money on advertising is that it, according to Zara, does not bring any value to its customers (Tungate, 2005).

Many of the Zara stores display items for sale only when the set of sizes for a particular item is complete enough. Complete enough means that all the major sizes has to be in stock, e.g.; S, M and L, while minor sizes may be XS, XXX, XL and XXL. If an item runs out of any of the major sizes in a store, the store’s staff will move all remaining pieces of that article to the backroom and replace it with a new article. The reason they do this is that missing sizes may have a negative impact on brand perception in the case a customer finds an items he or she likes, but it turns out that the desired size is out of stock. The items may return to display once the store receives a replenishment of sizes, in some cases they are transferred to another store, or kept until there is a clearance sale. Caro et al. (2010) writes that the rule of removing incomplete sizes is not a formal policy, but rather common store behaviour that they observed (Caro et al., 2010). The transferring of items to other stores applies not only to garments of missing sizes, but also to garments that do not sell very well in a certain store (Ghemawat & Nueno, 2006).

Ferdows et al. (2004) states that the regular replenishment of small quantities of new products, which have a limited display time, creates the urge for the customer to buy the product immediately before it disappears. It also makes people visit Zara’s stores more frequently.

Zara does not try to keep the prices at an equal level in all countries. The prices have to cover costs, which vary by country, plus a target margin. Furthermore, the prices are based on what comparable products sell for in each country, the level of income and what the consumers are ready to pay (Badía, 2009; Fraiman et al., 2002/2008; Mazaira et al., 2003). However, Zara does position itself differently over the world. In some countries, like Spain, it is not positioned as a very exclusive brand and 80% of the citizens can afford it. Whereas in other countries, it is positioned as a more exclusive brand targeted at the middle and upper class. Consequently, Zara can charge higher prices in these countries (Ghemawat & Nueno, 2006).

Up to 2001 the price tags were put on the items in the distributions centres and they showed the price for many different countries and currencies. But since it’s unwanted for a customer to notice the price difference between countries, the introduction of the euro changed this. Since
then, the items are price marked in the stores with a device that reads the bar code and prints the correct, local price label (Badía, 2009; Fraiman et al., 2002/2008).

The above figure demonstrates price differences of several products from Zara. The numbers represent different products, detailed price information can be seen in appendix 1.

4.7 Personal observations
We have made personal observations at our visits to the stores of Inditex’s different brands. We do agree on several of the things that we have read about in the annual reports and academic articles, but we disagree on others.

We do agree on the atmospheres created in the different store concepts. For example, Massimo Dutti having a more exclusive feeling, with more elegant clothing. There are just a few pieces of every garment at display and the look of the stores resembles that of a walk in closet. Bershka on the other hand, is very lively, with club music played loud.

One observation that shows that Zara is indeed quick at following trends was the occurrence of a certain detail on men’s shirts at a Zara store in Spain in the spring of 2010. A shirt with the same detail did not arrive in H&M stores until spring 2011.

We have to disagree on the statement that products at Zara are replaced as often as claimed, and that this would create an urge to purchase the items immediately. We have observed that there are items that are at display for several months.
4.8 Inditex’ financials and other numbers

The above graph shows the development of the numbers in the table. As we can see they have increased quite steadily. The drop of net income growth rate in 2003 was according to Inditex, due to exchange rate effects and bad luck with the weather. The low NI growth in 2008 and 2009 are due to the financial crisis these years. We can see that the compounded annual growth rates (CAGR) are quite similar to each other, although there is a noticeable different of about 2 percentage points for net sales and NI, compared to the others. One of the reasons why the gross profit, EBITDA, EBIT and NI have been able to keep a higher growth rate than the net sales is because of advances in technology and higher efficiency in various processes. This is also reflected in the increasing margins in the graphs below.

As we can see here, the gross profit has grown steadily. Also the gross margin has increased. We can also see the 2003 effect on the gross margin, nevertheless, the gross profit increased.
In the above graphs, we can see the development of EBITDA, EBIT, NI and the respective margins. The EBITDA, EBIT, NI numbers have increased reasonably steady, although we can see that they and the margins are affected during 2003 and 2008/2009. Over time, the margins have increased by around 3-4 percentage points.
Inditex expands by opening new stores, in current and new countries, which we can see in this graph. We can also observe that the proportion of stores abroad has increased and that the growth rate of domestic store openings has slowed down. The amount of stores abroad surpassed the amount of domestic stores in 2007. The CAGR for stores total from 1994 to 2010 was 16.74%, while from 1998 to 2010 it was 17.24%.

In the graph above we can see the proportion of stores abroad, and the share of net sales that these stores account for. It may seem like the expansion of stores abroad halted between 2001 and 2004, but this is merely due to that the rate of expansion of domestic stores was higher during these years.
Here we can see the development of the return on equity, return on capital employed and return on assets. We can observe that all of these ratios have increased over the years, and that they have been affected by the 2003 and 2008/2009 events.

The graph above shows how the inventory turnover has decreased from 6.16 to 4.62 times, under the period 1998 to 2010, a decrease by 24.9%. The net sales to inventory have decreased from 12.43 to 11.35 during the same period, a decrease by 8.7%.
The graph above illustrates how the equity ratio has increased quite steadily from 50.8% to 65%. The development of the liquid ratio is more spectacular as it has increased from 51.6% in 1998 to 149.1% in 2010.

Before Inditex was listed on the Spanish stock exchanges in 2001, it paid dividends to its shareholders accounting for less than 5% of its net income. In 2001 and 2002 the dividend payments accounted for around 20% of Inditex’s net income. In 2003 the dividend payout ratio was increased substantially, to 48.9%, and since 2005 it has accounted for more than 50% of the net income each year.
Chapter 5 - Analysis

In this chapter the collected information that was presented in the theoretical framework and in the empirical data is analysed. This is done by placing the two previous chapters against each other to find explanations in terms of similarities and differences etc., which are the basis for the conclusions. The chapter begins with a general analysis of the company, followed by an analysis of the different components of the triangle model integrated with an analysis of the supply chain.

This is a logarithmic graph of Inditex’s net sales and amount of stores. It does show that Inditex is indeed still growing, but that the growth rate has declined. Reasons for this will be further analysed.

Figure 16. Logarithmic growth

Inditex’s launch of successful concepts and establishment of stores have been fundamental for its growth. A factor that could have contributed to the expansion is the fact that all of Inditex’s brands are driven autonomously. This means that each concept has its own management and resources, as well as own distribution centres etc. This has enabled every brand to focus solely on its own concept and target segments.

It is interesting that Inditex barely conducts any regular advertising, but instead uses its stores and display windows as a marketing channel. This explains the effort it attributes to the design of the stores’ exteriors and interiors, an example being the street of pilot stores at Zara’s headquarters where the personnel put a lot of effort into designing the stores. Inditex has obviously managed to grow without the use of regular marketing, but it is unavoidable not to wonder how the use of print, billboards, TV commercials and other advertising channels would have affected its growth. However, in 2009, the different brands began to use social networks as a communication channel. This could possibly lead to an increased awareness of Inditex’s different brands, which in turn could have a positive effect on its growth.

One activity that could increase Inditex’s sales is the expansion of its e-commerce, by launching online stores for all of its brands. As stated, the e-commerce sales around the world are growing, and Inditex’s increasing use of e-commerce as a sales channel will make sure that it does not miss this sales opportunity, or fall behind its competitors in this field.

5.1 Subject

The subject is composed by the company’s personnel and their competence. All the people in Inditex are valuable for the continuous growth of the company. As the company expands, it needs to recruit more competent and passionate personnel. In Inditex, the personnel are made up of the store personnel, managers, designers, seamstresses etc.

Inditex is based on a customer oriented business model with vertical integration, which allows open and quick communication within and between the different teams. An example is when the store personnel observe and get an understanding of the customer’s demands and preferences,
and report this directly to the design teams, who can quickly adapt the latest designs to these demands. This is in line with being *market sensitive* as described in the theory about the agile supply chain. In addition to this, employees at Zara do follow the latest trends through movies, fashion shows, by visiting various public places, etc. which is also consistent with the theory.

It is clear that Inditex appreciates the work of its employees. One such example is that it does not cut costs by sharing designers between the different brands or even between the men, women and children’s lines at Zara. Instead, Inditex cherishes the different talents and let them work on what they are passionate about. This is apparent as it has several hundred designers designing about four times more items than are actually getting into production. Another example is when it comes to deciding the shipment quantities to the stores, where the store managers’ intuition and judgement still are valued, before letting machines completely automate these decisions. Inditex also devotes a lot of resources in terms of educating its employees. For example, the store personnel receives special customer service training to be able to act and represent the brands professionally, as it is the store personnel that the customers are in contact with. Furthermore, Inditex encourages its personnel to take initiatives. One example is the behaviour of store personnel to move items with incomplete sets of sizes, which is not a formal policy, but an act that they perform anyway.

One factor that has enabled Inditex success is the flexible network of small workshops. Even though these are ‘autonomous’ businesses, they are tightly integrated with Inditex, and it is apparent that the competencies of the persons working there are very important to Inditex as it supports them with technological and financial support etc.

5.2 Object

The *object* is composed of Inditex’s products and its production facilities. This is an important aspect of Inditex as it takes much pride in its ability to deliver the latest fashion quickly with good quality to attractive prices.

Inditex’s view on affordable prices is however questionable. In Spain and Portugal it seems true as around 80% of the population can afford the garments. However in some countries, many of which are low-wage countries outside of Europe, it positions Zara as more of an exclusive brand targeted at the middle and upper class, with prices exceeding those in Europe.

Inditex does control its design process, many of its production facilities, warehouses, logistics centres, and stores. Consequently, it can keep all these parties connected and integrated, which facilitates the sharing of information, particularly on customer demand and point-of-sale data. These information flows enables the semiweekly shipments of products to all of Inditex’s stores, which in turn allows them to hold more of the demanded products at display, with less inventory, minimizing obsolescent stock. This is in accordance with the *virtual* aspect of the agile supply chain.

Simply having all these parties integrated within the company leads to seamless connections and what is called *process alignment* in the theory about the agile supply chain. An example being that new clothing designs can be sent from Zara’s design team directly, to the manufacturing machines so that the production can start immediately.

Although the triangle model does not concern external factors such as suppliers, in the case of Inditex, it is important to look at those in relation to the in-house manufacturing.
According to the theory of a network-based supply chain, a company should have flexible and close relationships with a wide network of suppliers. Inditex indeed has many suppliers, over 1,200, and maintains long-term relationships with them. The business model is based on flexibility, which also includes the suppliers that are integrated in the company, as mentioned earlier in the example of the local workshops.

There are indications that Inditex are now sourcing ever more from non-local suppliers, such as those in India and China among other countries. A reason for this could be that the network of small workshops that Inditex is heavily relied upon is no longer as economic as it used to be. As mentioned, there is a possibility that these historically have been ‘gray’, but that Inditex now care more for them, making sure they have good standards, salaries and social security. Another reason for sourcing more from the Far East may be that these small workshops are a scarce resource, that the amount of people with these competencies are limited, and consequently, so are the amount of new workshops that can open.

The above reasoning brings up the question whether the increasing use of suppliers from the Far East is a factor that has affected the fast fashion concept and in turn slowed down Inditex’s growth rate. Garments manufactured and sold in Asia are actually taking the detour through the distribution centres in Spain. This increases transportation costs as well as having a negative impact on the rapid distribution system. Therefore, Inditex could establish distribution centres in Asia, which Inditex considers as its most important expansion region. One possible reason why it may not have done this is because it would lose control.

Much of Inditex’s growth is attributable to the launching of new brands. Although Tempe is not a brand per se, it does have two outlets, and there is a possibility for it to expand further as an independent concept. Tempe would solely focus on selling footwear, just like Inditex already has the successful brands Oysho and Uterqüe that focus on lingerie and accessories, respectively. Not to forget the possibility for Inditex to launch additional brands.

5.3 Finance

As observed in Figure 5, the compounded annual growth rates (CAGR) are quite similar to each other, however, the CAGR of the net sales is about 2 percentage points lower than the gross profit, EBITDA and EBIT, while the CAGR of the NI is higher by the same amount. One of the reasons why the gross profit, EBITDA, EBIT and NI have been able to keep a higher growth rate than the net sales is because of advances in technology and higher efficiency in various processes. This is also reflected in the increasing margins in the graph below. The additional increase in net income may, among many other factors, be due to relatively lower interest expenses as a result of a higher equity ratio. However, the interest expenses and taxes are affected by several external factors that are not considered in this study.
The increasing margins that are observable in the graph to the left indicate that Inditex has become more profitable over time. In the case of the gross margin, and consequently all margins, it is because the costs of goods sold have not increased in the same rate as the net sales, which is a result of higher efficiency in various processes and advances in technology.

The amount of stores since 1998 has grown with a CAGR of 17.24% while the net sales have grown with a CAGR of 18.62%. This has resulted in an increased sales/store ratio. At first glance, this could lead one to believe that each store is now, in average, selling more garments in terms of volume. However, this difference could be the result of other factors, such as inflation.

As stated, the growth rate of Inditex has declined. The rate of new store openings in Spain peaked in 2003 and has since then declined. A possible reason for this is that the Spanish market is becoming saturated in terms of Inditex stores. The rate of new store openings abroad also seem to have slowed down since it peaked in 2007, however, this was more recently and the possibility of this being a temporary slowdown is higher. It is unlikely that the rest of the world is saturated in terms of Inditex stores considering that of the 5,044 Inditex stores around the world, 1,925 or 38% are located in Spain, and of the 4,004 stores in Europe, Spain accounts for 48%. Subsequently, Inditex could be able to grow by continuing its worldwide expansion. However, a possible reason for the slowdown in expansion abroad may instead be the higher costs of establishing new stores abroad, combined with higher logistic costs to those countries and competition from other established brands.
At first glance, this chart could indicate that stores abroad sell more than stores in Spain in terms of volume. However, since the prices abroad are higher than in Spain, the difference in sales volume is lower than this chart indicates.

The ROE, ROCE and ROA ratios have steadily increased, from 1998 to 2010, except for the dips in 2003 and 2008/2009. One reason that the ROE and ROCE have not recovered to their high levels in 2007, while the ROA has, is that the equity ratio has increased, consequently, the profits in relation to the equity is lower. The increase in the ratios does indicate that Inditex are more profitable now than it was historically.

This chart indicates that the inventory turnover has declined by 24.9%, from 6.16 to 4.62 times. However, in terms of volume, the decrease is probably not that large. The cause of the decrease is to a large extent due to the increase in the gross margin, leading to a lower cost of goods sold in relation to inventory. Instead looking at net sales to inventory, this ratio has decreased by 8.7%.

Inditex’s equity ratio has been stable and increasing over the years, reaching 65% in 2010. This indicates that Inditex is strong financially, which facilitates its growth during economic down-cycles. The growing equity ratio also indicates that Inditex does have enough equity to expand at a higher rate, if it so desires.
Inditex’s liquid ratio, which is another measure to show the financial strength, but focused on the short term perspective, did not exceed 100% until 2009. Prior to this, Inditex was not able to pay its short term liabilities with its short term assets (excluding inventory), but since 2009, they are able to do this. The increase is mainly attributable to the larger increase in the current assets in relation to the inventory and current liabilities, which have barely increased since 2007.

Inditex have had a substantial increase in its dividend payout ratio since its initial public offering in 2001, from 3.9% in 1998 to 57.6% in 2010. It is highly likely that these dividends reduce the cash available and usable for expansion. This could be a reason for the decline in Inditex’s growth rate.
Chapter 6 - Conclusions

In this final chapter, the results of the previous analysis are presented, as well as an attempt to answer the research question, which is the basis for the study. Therefore, this chapter is similar to a summary of the study, in which the authors also present their personal thoughts around the discussed subject. Furthermore, suggestions for future research are provided.

6.1 Discussion

Inditex has grown substantially ever since the launch of the first Zara store. This study has attempted to identify the underlying reasons for Inditex’s success and growth. However, the growth rate has declined over time. Therefore, an attempt is made to find out whether Inditex can continue to grow, and whether the factors that have enabled its growth still exist.

One factor that seems to have had, and still has, a large influence on Inditex’s success is that it has been able to deliver fashion to attractive prices, quickly. By launching several concepts as different brands, Inditex has managed to cater to the demands of the customers of different segments.

We think that one of the most important aspects of Inditex’s success is the rapid communication flows between all integrated parties. Although we do not know, we think that it is a quite unique practice that stores managers of stores all over the world contact the designers to update them on customers’ preferences. Nonetheless, we think this practice has had an important role in Inditex’s success.

An interesting fact is that it has succeeded so well without the use of regular advertising, this really shows that the brands and their products are appreciated by consumers. Nonetheless, a question is whether the brands would have sold even more with the use of advertising. Perhaps, the non-existent use of advertising, but instead relying on word of mouth, creates an exclusive feeling of the brands.

It is clear that Inditex appreciates human labour, however, this could perhaps cause lower efficiencies and higher costs. For example, the implementation of a computer system that aids the warehouse employees to send out optimized shipment quantities to stores. Even though this system increased sales, it still partially relies on human inputs based on human intuition. Therefore, it would be interesting to know whether a completely automated system that relied solely on statistics and mathematical algorithms could increase sales even more. Additionally, such a system would save costs on personnel.

Indeed Inditex still has access to a flexible network of local workshops, being able to manufacture high quality garments quickly. However, these seem not to be as competitive as they once used to be. There seems to be a possibility that historically the persons employed by these workshops were paid very low wages, and there are uncertainties whether the workshops paid taxes. Now, Inditex has a rigid CSR programme, making sure they are up to good standards. Additionally, there are indications that companies in low-wage countries are now more competitive, being able to produce higher quality garments with a quicker response than they historically were. If the use of these local workshops historically has been a competitive advantage, this advantage may now be smaller.
The use of local manufacturing has been able to speed up logistics and to some degree lowered transportation costs compared to the use of Asian suppliers. This has been one success factor for Inditex’s growth in Spain and the rest of Europe. However, as Inditex expands in other parts of the world, these practices are no longer an advantage. Perhaps, Inditex could establish distribution centres in all countries where manufacturing are carried out, to speed up the distribution to these countries, as well as to reduce transportation costs.

We have seen in this study that Inditex’s financials are strong and have been so historically as well. This has made it possible for Inditex to expand through the business cycles. Inditex’s financials seem not to be a limiting factor for its expansion at its current or at a higher growth rate. Instead, Inditex’s strong financials should allow it to grow at a higher rate. If the current rate of growth is the result of financials, it seems to be entirely of choice. If this is the case, it seems like Inditex has chosen to increase its equity ratio as well as dividend payout ratio instead of expanding at a higher rate.

One reason of the slowing growth rate of Inditex may lie in the capabilities of the top management of Inditex and its brands. A management of a certain size can only handle the opening of a certain amount of stores annually, without getting overburdened.

We believe that online stores sales will become more significant. This will enable sales to other countries without establishing stores. In this way Inditex can continue its international expansion and simultaneously reducing costs.

6.2 Further research

This study has primarily focused on the internal workings on Inditex. Thus, we have ended up with a lot of unanswered questions about how and whether Inditex have been affected by external factors. These external factors could be the subject of further research.

We have seen that the growth rate of store openings in Spain has slowed down significantly and that the Spanish market may be subject to saturation in terms of Inditex stores. This affects the total rate of store growth, but if the international expansion continues, the amount of stores in Spain will become relatively smaller, and consequently, the total growth rate will increase. However, the rate of international store openings has not increased since 2007. Perhaps this is temporary, but this is something that the future will tell, or possibly the subject for further research. Other reasons for the declining international growth rate could be different customer demands, competition, barriers of entry, etc.
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<tr>
<th>Country</th>
<th>Prices in USD</th>
<th>Prices in SEK</th>
<th>Prices in EUR</th>
<th>Prices in JPY</th>
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