

# Putting the fast in fashion

*IESE, Spain's leading business school and one of Europe's most progressive business education centers, is an external partner and contributor to JTI's Training & Development program.*

*Those who attend the lectures of Professor of Marketing, José Luis Nuño, generally come away impressed. He is a sought-after speaker on a range of business topics and an advisor to many corporations. He is a keen observer of fast fashion, which he describes as "a business model that has been a constant source of ingenuity, inspiration and learning."*

*We asked him to comment on the pace of innovation in today's global marketplace.*

*Victoria Hanson, Editor-in-Chief*

In just a few decades, globalization has created a vast, single marketplace dominated by brands with an appetite for scale and speed. Some sell style, quality or performance; others offer affordability. But the shared goal of every marketer is to connect consumers with the goods and services they seek in the shortest possible time.

José Luis Nuño, Professor of Marketing at IESE Business School in Spain, is a recognized authority on the supply chains that crisscross the world to enable this. He believes there has been a fundamental shift in the measurement of competitiveness: "Time is an increasingly critical consideration. Sales volumes and competitive pressures are such that the value of innovation can be substantially increased or diminished by speed to market."

The so-called supply-chain revolution has been driven by a number of interrelated factors. Lower manufacturing costs were among the first and remain the most

compelling. But there are also inventory risk reduction and product line flexibility considerations, and proximity issues in servicing multiple markets.

In addition, Professor Nuño emphasizes new enabling factors, such as the facility with which market intelligence can be gathered and processed, increasing both the predictive and the responsive capabilities of large businesses. The result is better forecasting and the ability to monitor sales in real time across hundreds or even thousands of outlets.

"Many characteristics of the new generation of supply chains were first evident in the automobile sector and in consumer electronics," he observes. Concepts such as just-in-time delivery increased manufacturing flexibility. Dell, for example, recognized the value of being able to upgrade its products immediately when a newer, faster chip became available – and charge more for them – rather than having to run down existing inventory."

## Critical skills

The flipside was the need for well-integrated, responsive suppliers. Professor Nuño makes the distinction between what he calls "supply networks" and traditional supply chains. The former implies the kind of close-knit internal and outsourced communities of critical skills favored by the automobile industry today. The latter is a primarily cost-driven means of meeting mass production and distribution needs.

The apparel sector is a good place to look to understand the challenges of globalization. Professor Nuño has been studying it for 15 years. He notes that every retail model is sooner or later substituted by a more efficient one, and cites the case of Inditex, the highly successful Spanish company best known for its Zara brand.

## "Time is an increasingly critical consideration."

Zara, formed in 1975, has stores in over 400 cities across Europe, the Americas, Asia and Africa. It was one of the first retailers to focus on developing fast fashion as a core capability, offering consumers a limited but continuously changing range of garments at mainstream prices.

"The economics of global competition are such that consumer choice is diminishing in many sectors, which is not necessarily a bad thing – there's little evidence of consumer resistance," says Professor Nuño. "Recognizing this, Zara pinned its future on being able to supply well-targeted,



Professor José Luis Nuño, Professor of Marketing, IESE Business School

fast-changing garment collections more efficiently than anyone had done before. The implementation of this model has played a large part in its success."

## Speed takes precedence

Professor Nuño explains how the company's supply chain is structured.

"Between 15% and 20% of Zara's total inventory consists of basic garments with enduring consumer appeal – shirts, denims and so on. Demand is constant, so it can operate a more or less continuous supply cycle. There is no time sensitivity, so it can shop anywhere in the world for the best price-quality combinations, and transport goods by sea at the lowest possible cost.

"It sources regular fashion lines for seasonal collections on a 90-day cycle. Shipping is usually by truck which is more

expensive and may impose some geographic restrictions on supply options.

"Somewhere between 40% and 50% of what it sells is fast fashion, however, where speed to market takes precedence over cost. Garments must be in-store between four to six weeks after orders are placed.

"Transportation time must be cut to a matter of a few days, so proximity becomes a key factor in its sourcing choices. For the Spanish domestic market, for example, that means garments produced locally or in Portugal or North Africa by integrated clusters of suppliers – fabric manufacturers, cutters, garment finishers, and so on. Air transport is a possible alternative, but a high-cost one that eats into margins."

Professor Nuño believes there is an important underlying advantage of the Zara model. "One consequence of speed to market is that the distinction between the initiation and the following of consumer trends is increasingly blurred. This strengthens the retailer's position to influence the fashion agenda in profitable ways, rather than having it set by others."

## Relevance of speed

Inditex recently announced a sales increase of 10% in 2011 and net profits up 12% to EUR 1,932 bn. There can be little doubt that the meticulous alignment of its supply side and marketing strategies is a key factor in its corporate success, or that it will continue to build on this advantage in imaginative ways. But is there an eventual limit to the business benefits of streamlining supply chains?

Professor Nuño doubts this. He acknowledges that the level of efficiency at the leading edge of many sectors is already high and that there may well be theoretical limits. But the dynamics of globalization are continuously changing.

"For example, the impact of high oil prices, rising local labor costs, and growing domestic demand in Asia could cause apparel brand owners to rethink their strategies. The shorter, more centralized supply chains that existed 20 years ago could regain competitiveness."

## "Proximity becomes a key factor in sourcing choices."

Sustainability-related issues might pose different questions about the future, however. Arguably, the concept of fashion – to say nothing of fast fashion – is at odds with growing concern in many societies over use of finite resources. The apparel industry, like others, may be held to account with new demands for quality and durability. Speed may one day be less relevant.

Professor Nuño point out that sustainability is very high on the agenda of Inditex and other apparel brand owners such as H&M, Mango and Nike. Corporate as well as consumer values are undoubtedly changing in this respect. But wherever this leads, he believes supply chains that meet market demand most efficiently will continue to create competitive advantage. □