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Zara's Scours World For Trends, Then Makes Clothes

Beatriz Padin knows Zara is on to something: The new khaki skirt already has sold out and it has been on store shelves in A Coruna for only a few hours.

Ms. Padin telephones Barcelona. Sales there are also brisk. Some 2,800 skirts were sent out during the night to some of the retailer's 449 stores world-wide -- just enough to test the waters. Reports from other stores come in showing the same result: the skirt is a hit.

If that's not enough, Ms. Padin, a pale, slender woman dressed in black, spotted a colleague wearing the skirt. "That's always a good sign. Employees here are tough critics," Ms. Padin says.

With a mix of intelligence gathering, fashion instinct and technological savoir-faire, Ms. Padin is about to set in motion something unheard of in the European clothing trade: just-in-time low-cost fashion. Within days, Zara stores on three continents will be stocked with the khaki skirt. That sort of quick response enables Zara to offer the latest fashions at reasonable prices in such upscale locales as the Champs-Elysees in Paris and Lexington Avenue in New York.

Created in 1975, Zara is the largest and most profitable unit of Inditex SA, the Galician clothes manufacturer and distributor that launched a 2.3 billion euros initial public offering Monday. Over the past 28 years, Inditex has evolved from a tiny apparel maker into a powerful industrial company with five specialized clothing chains, each one designed to meet the demands of a different market segment. With sales last year of 2.6 billion euros and 1,080 stores in 33 countries, Inditex has become one of Europe's most profitable clothes retailers, churning out some 20,000 different lines every year.

In addition to Zara, which accounts for 78% of the company's retail sales, Inditex owns retailers Massimo Dutti; Pull & Bear; Bershka and Stradivarius. It recently launched Oysho for the production and distribution of lingerie.

Unlike competitors Gap Inc. of the U.S. and Hennes & Mauritz AB of Sweden, Zara produces more than half of its own clothes, most of them at home in Galicia. Unlike Benetton SpA of Italy, it operates its own world-wide distribution network. Controlling the whole chain of production gives it flexibility that competitors don't have, enabling Zara to operate without costly inventories.

"I've seen millions of plants, but never one like Zara's," says Jose Luis Nueno, a professor of retailing at **IESE, the graduate business school at Spain's University of Navarre**. Mr. Nueno carried out a four-year study of sales at Zara. "In terms of technology and industrial production, they are way ahead."

Zara takes only four to five weeks to design a new collection and then a week to make it. The company can spot and react to trends quickly, including taking something stylish off a music video. "Enough people start asking for something they've seen in a video and Zara is making it in days," Mr. Nueno says. Then, company designers know in real-time what's selling and what's not."

In contrast, other retailers need an average of six months to design and then another three months to manufacture a new collection, according to Inditex Chief Executive Jose Maria Castellano. Fashion expires, much the same way yogurt does," he says. "Being so quick, allows us to reduce to a minimum the risk of making a mistake -- and we do make mistakes -- with our collections."

Certainly, being so quick also has drawbacks. Zara sometimes seems to sacrifice quality in favor of speed, particularly for certain lines of clothes. In fact, if consumers have any complaint, it's that Zara's clothes often don't last as long as many would like. "Zara makes really trendy stuff at very accessible prices, but the quality isn't always that great," says Colleen van Cleave, a Canadian translator who shops at Zara in Spain. "If you want to buy something stylish that you're not going to wear much, or something really trendy that'll go out of style in no time, then you go to Zara because the clothes are nice and cheap."

Most of Zara's top fashion items are designed, cut and produced at the ultra modern A Coruna complex that the company built two years ago for three billion pesetas (18 million euros). The company produces 40% of its own fabric, far more than most of its competitors. The pieces are sewn together at 400 local cooperatives run by seamstresses in Galicia.

In contrast, many competitors don't produce their clothes. H&M, for example, has 900 suppliers and no factories. "We think the way we have structured our organization gives us a competitive edge," says H&M spokesman Annacarin Bjerne. "Our suppliers have factories with different specialties which enables us to give customers the broad variety of clothes we have in our stores."

At Zara, designers like Ms. Padin stay in constant contact with store managers throughout the world, which enables them to sniff out new fashions before they become trendy. "We're like sponges; we soak up information about fashion trends from all over the world," says Rafael Pastor, a designer who works with Ms. Padin.

Sitting at his desk, Mr. Pastor is checking real-time sales on his computer to see what items from last night's delivery are selling and where. Pants and shirts embroidered with flowers are still hot, particularly in Catalonia. Long flowing plaid skirts are popular in Kuwait and other Arab countries. After selling well in Asia earlier this year, dresses with camouflage motifs are big in France and Lebanon. But stripes are outselling camouflage in Spain.

As designer in charge of Latin America, Ms. Padin has been woken late at night by store managers too excited about a hot selling item to wait until morning to message headquarters in Spain. "It's part of the job," says Miguel Diaz, another member of the team. "There is always a Zara store open somewhere, 24 hours a day."

Zara's team of designers is always on the prowl for new fashion trends. Ms. Padin and designer Mercedes de las Heras, for example, look through stacks of fashion magazines, attend fashion shows and fairs and frequent fashionable cafes, restaurants and bars.

Employees travel so much that the travel agency Carlson WagonLit Travel set up an office at Zara's complex. "It's good to listen, particularly to customers. They know better than anyone what they want," Ms. Padin says.

The fashion of military-style dresses and skirts started several months earlier in Japan -- where many of Europe's fashion trends begin -- and the team has been producing variations of the theme ever since. Ms. de las Heras first got the idea for a military-style belt flipping through a French fashion magazine. Rather than flood the market with a single item, the designers are constantly updating and mixing and matching popular styles so that no single model is on the market for more than a couple of weeks.

It is Mr. Diaz's job to coordinate the team and decide what's going to be sold and where. When flowered dresses began selling well not long ago, it was Mr. Diaz who made sure the designers didn't overdo it, swamping the market with similar models. "Sometimes I get carried away. I wanted to design more of the same flower prints, but Miguel wouldn't let me," says Ms. Padin. "No one wants to dress like everybody else. It's important always to have fresh fashion."

Zara's strategy is to make fashion appealing to what company executives describe as "a global consumer tribe." By expanding world-wide, the company has been able to reach sales volumes that are large enough to enable it to undercut local rivals. "Although we adapt to the needs of each country, about 90% of what we make is sold to all our stores," says Mr. Diaz. "What changes are certain details and the volumes that are sold to each."

If an item such as the camouflage dress fails to catch on in southern Spain, for instance, it can be shipped quickly to France where sales may be brisk. Deliveries are made twice a week and items rarely remain on a store shelf for more than a week. Store clerks heighten the sense of rapid turnover by changing the location of key items.

"Turnover is so high that consumers are under pressure to buy. There's always the feeling that if they don't buy now, they'll lose their opportunity," says Prof. Nueno. He discovered that the constant turnover of high-fashion items has converted many consumers into devotees who spend increasingly more time and money every year acquiring clothes from Zara. "There's nothing like it anywhere," he says.