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# Inditex: A Case Study in Transferring Fast Fashion to International Markets

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**Thesis Summary**

Using Industria de Diseño Textil, S.A. (Inditex) and its subsidiaries as a case study, this thesis is an analysis of the largest fashion group in the world and its success in transferring a unique fast fashion business model into almost 100 markets worldwide. This thesis examines the internationalization of a large company and the steps it must take to enter into a new market, including internationalization motivations, market selection, and entrance strategies (both physical and virtual). This analysis uses an in-depth case approach to analyze the fast fashion business model that has made Inditex a success. Using extensive secondary research, including scholarly articles, previous case studies, and internal company documents, this thesis will allow for existing data to be summarized and collected in order to fully evaluate and gain a broader understanding of the unique business model of Inditex.

**Expected Results and Significance**

Through this thesis I frame the steps a company takes to enter into a foreign market successfully and how the fast fashion business model has evolved over time to develop more advanced supply chains and reach more customer markets. This thesis is significant as it is important to recognize the barriers of entry for a business to enter a new market (culture, language, customs, etc.) and how to overcome these in order to be successful. This thesis evaluates how the largest fashion group in the world has retained their competitive advantage of being able to enter new markets in the world of fast fashion. After completing my study abroad experience, I hope to have a better understanding of Inditex and how the group adjusts their stores in different markets. Through first-hand experience, along with secondary research, this thesis completes an in-depth case study on Inditex and its fast fashion business model.

## Introduction

The global fashion industry is an ever-changing business filled with innovation and creativity in both the design and supply chain of the clothes. Each season high-end designers bring new lines of clothes to market for their customers. Those who can afford these clothes pay attention to the season, style, and designer of their clothes; however, for the majority of shoppers, these clothes are neither affordable nor desired. There became a need for stylish clothing at an affordable price for the middle class. Spanish brands like Zara, Mango, Desigual, and Bershka emerged and provided such clothing to domestic consumers. These companies took advantage of a niche market segment that had been overlooked by the prestigious, designer brands in Italy and France.

The thesis begins with the creation of Inditex and its unique business model that has helped it become the largest fashion group in the world. Next, it uses the competitors in the fast fashion industry to contrast different approaches taken in the market, from marketing to pricing strategies. Then, both the physical and virtual expansion strategies are introduced and evaluated on their implementation and results in international markets. Finally, exterior factors that influence the market, such as corporate social responsibility, are examined and future projections are suggested.

## Background

During the last decades of the reign of Spanish dictator Francisco Franco, there was an increased demand for foreign, designer clothing; however, there were laws set in place to restrict competition from these companies. Spain was in a state of isolation and had to rely on domestic companies for most consumer goods. Following the death of Franco in 1975, Spain transitioned to a democracy and joined the European Community, now the European Union. The economy of Spain flourished as new opportunities for trade increased with neighboring countries. It was during this time of prosperity that Amancio Ortega opened his first dress shop in La Coruña, Spain, known as Confecciones Goa. The storefront soon changed its name to Zara and became widely popular. After ten years of operations and expanding across Spain, Ortega set up Inditex as the holding company for the group of shops and factories he ran (Gómez, 2012). By 2001, Inditex had almost 1,000 storefronts in 30 countries and completed their initial public offering (IPO) at €92 million.

In less than three decades, Inditex had changed the world of fashion for the masses. It became the world's largest fashion group with its eight retail brands including Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home, and Uterqüe, each with a strong customer orientation (Popescu, 2015). All of Inditex brands target a different customer demographic as shown in Figure 1. Zara, its largest brand, focuses on re-creating high fashion garments at an affordable price, while Bershka and Stradivarius cater more toward younger, teen consumers. This customer segmentation allows Inditex to capture a greater share of the market with its stores.

**Business Model**

Amancio Ortega wished to create a unique business model that allowed for "instant fashions" where the company could control the entire lifecycle of the product, including design, manufacturing, distribution, and marketing. While most fashion companies took up to six months on average to conceive, produce, and deliver a product to a store, Inditex was able to reduce its time-to-market to just two weeks leading to increased profit margins (Blanchard, 2020). Inditex was the first fashion retailer in the world to compete based on this time-to-market strategy (Vincent et al., 2013). This fast fashion business model has made Inditex a powerhouse in the global fashion market.

Fast fashion is a concept in which new items are placed on the market each week without waiting for the traditional season to pass (Ionescu, 2014). Companies that operate within the fast fashion industry are able to spot the latest trends from designer runways then manufacture and distribute similar items to stores in just a few weeks. Inditex specializes in low- to mid-priced clothing and combines quick response production capabilities with enhanced product design capabilities to both create products that capture the latest fashion trends and exploit minimal production lead times to match supply with uncertain demand (Vincent et al., 2013). The group is vertically integrated at each level of their supply chain; Inditex consists of almost 300 companies dedicated to their own manufacturing, logistics, and distribution. This integration allows Inditex to be responsive and flexible to constantly adjust supply to the demand of its customers.

At the design level, Inditex is not attempting to create trends, rather the company's aim is to identify current trends and include these elements in their products. There is constant contact between the stores, online teams, and over 700 designers. The stores serve as a source of information; buying managers for Inditex receive feedback from the customers at the point of sale about new garments, products, and trends. In turn, data analysis enables Inditex to understand the needs of the customers and guide their purchases in a targeted way. This, coupled with a focus on responsiveness, enables Inditex to identify and respond to customer preferences as they emerge (Inditex, 2020).

At the manufacturing and supply stage, Inditex is known for their state-of-the-art production and warehousing procedures. There are computerized inventory systems that link stores to factories and have allowed the company to avoid the risk and capital outlay associated with maintaining a large inventory stock (Vincent et al., 2013). According to CEO Pablo Isla, the method of sourcing at Inditex is called proximity sourcing, where the company produces the majority of its products in Spain, Portugal, and Morocco. This allows Inditex to make deliveries at the very last minute (McGinn, 2017). Overall, Inditex's head start and deep knowledge of this type of production has given it a huge advantage in the fast fashion industry (Vincent et al., 2013).

After the products are manufactured, they are sent to logistic centers for each Inditex brand and distributed simultaneously to all stores worldwide at a high and constant frequency. This distribution takes place twice a week and includes new products for customers. The time for clothes to travel from logistic center to store is rapid and averages around 24 hours for the European market and 48 hours for the American and Asian markets. Due to proximity sourcing, if there is a sudden shift in trends, Inditex has the ability to realign its commercial offering by immediately adjusting the number of garments to meet actual demand (Inditex, 2020).

Inditex wants its customers to enjoy their shopping experience in the best locations, on the most popular shopping streets around the world (Inditex, 2020). Once its products leave distribution centers, Inditex relies on prime storefronts to draw in customers, supporting a high-end image despite their lower price point (Vincent et al., 2013). These flagship stores are strategically placed next door to high-end, designer stores in order to classify Inditex as a luxurious brand with customers. In addition to popular locations, Inditex frequently utilizes unique buildings for its storefronts, including an 18th century convent in Salamanca, Spain and a historic theater in Elche, Spain. One of the most notable flagship Zara stores is located on Fifth Avenue in New York City. This store was the most expensive piece of real estate ever sold in Manhattan, valued at $324 million (Hansen, 2012).

Unlike its competitors, Inditex does virtually no advertising; instead, the group uses its flagship stores to convey its message. While other fashion retailers spend an average of 5% of revenue on advertising, Inditex spends just 0.3%. Zara prioritizes its spending on opening new stores instead of spending money on advertising campaigns. The few ads that are undertaken are to publicize its twice-yearly sales and to announce the opening of a new store (Aftab et al., 2018). The aim is for customers to see a Zara storefront before a Zara commercial.

While it is the goal for customers to experience shopping at Inditex brands in their physical storefronts, each brand in the group directly operates both its physical and online stores in a highly integrated manner. This efficient integration of operations with warehousing, transport, and distribution processes is the result of a stock management system underpinned by radio frequency identification technology (RFID) which tracks every garment (Inditex, 2020). This technology allows for customers to check if a product is available and where it is located (e.g., in a specific store or online). All brands of Inditex sell the same products both online and in store. The prices found online are continuously updated to match shopping prices in store, including sale and clearance items.

Not only does Inditex's business model uniquely protect it from risk, but it also creates a buying environment that promotes more sales (Vincent et al., 2013). Both the short production cycle and the renewal of inventory every two weeks encourage customers to make more frequent trips to physical and online storefronts and make purchases; the loyal consumer to Inditex brands does not want to miss out on the newest arrivals. In addition, Zara’s garments are not designed to have a long-life cycle and be considered “classics”. Zara designs and produces trendy products that are made with less expensive fabric and are characterized as “clothes to be worn 10 times”. The average Zara customer visits the store 17 times per year, compared with only three annual visits made to its competitors (Vincent et al., 2013).

Overall, Inditex reports that they “aim to create value through the design of beautiful, ethically produced, high-quality, trend-driven fashion products, which are accessible to everyone, [and] are determined to maximize the life cycle of every item sold and material used in production”

(Inditex, 2020). With the customer always at the center of the business model, as seen in Figure 2, Inditex has been able to successfully create a cycle starting with constant changes in design based on demand, followed by small batch manufacturing, then twice weekly delivery logistics, to sales analysis in both physical and online stores.

**Industry Competitors**

The unique business model of Inditex gives the fashion group its competitive advantage as the innovator of fast fashion, causing its competitors to adjust their own processes to more closely resemble the quick time-to-market and just-in-time delivery utilized by the industry leader or risk falling further behind in the industry (Vincent et al., 2013). However, in the fashion industry, nothing lasts forever. Since the inception of the fast fashion business model, the margin between Inditex and its rivals was bound to shrink.

In relation to its competitors on Spanish soil, Inditex is triple the size of the next top ten retailers combined (e.g., Mango, Cortefiel, and Desigual). In fact, the growth of these companies was based on their successful imitation of the fast fashion strategies and has benefitted from the favorable business environment created in Spain by Inditex (Miranda, 2020). Unlike Inditex, competitor Mango chose to contract out its production, instead of running its own facilities. Most of Mango’s production is done in Asia, so the turnaround time to move a product from design to retail distribution is longer than that of Inditex (averaging around three months). In the last five years, Mango has made strides to relocate its production to reduce the distance the clothing must travel to reach its storefronts; the company is looking at facilities in Turkey. Mango is also attempting to position itself away from Zara and move into the mid- to high-price sector of the fashion industry as it is starting to offer clothing it deems to be of higher quality.

In addition to domestic competitors, foreign retailers have adopted the fast fashion business model, including Hennes & Mauritz (H&M) and Forever 21; however, Inditex has been able to sustain their success and operate its stores in more countries. For reference, Forever 21 has 800 locations in 57 countries, H&M has 5,000 locations in 50 countries, and Inditex collectively has 7,500 locations in 96 countries.

While Inditex has 50% more stores than H&M and boasts a faster response time, the Swedish company offers a lower price point, as seen in Figure 3, while controlling a greater percentage of the American market (Vincent et al., 2013). H&M is able to have the competitive advantage in pricing because Inditex requires greater returns on products in the American market. The majority of its goods, as seen in Figure 4, are not produced in close proximity to North America, so the shipping and delivery costs are high. In order to operate profitably in the global fashion industry, Inditex adjusts its prices in markets according to the size of costs incurred. As seen in Figure 5, the same products sold in Spain will be sold for double the price in the American and South Korean stores.

In regard to Forever 21, the retailer has recently filed for bankruptcy and plans to close most of its stores in Europe and Asia (approximately 250 stores). Experts believe that the end is due to the brand's failure to stay up with the times, keep the brand modern, take digital to the next level and, most importantly, meet the expectations of their increasingly socially aware customer base (Davis, 2019). H&M and Inditex brands have made changes to their supply chains to become more ethical and sustainable players in the industry, while Forever 21 has focused more on keeping up with popular fashion trends.

Inditex has spent decades perfecting its integrated network, and competitors have not been successful in replicating their large-scale integration, IT response structure, or distribution system upon entry (Vincent et al., 2013). According to José Luis Nueno of the IESE Business School in Barcelona, "Many other companies have tried to copy its business model, and some manage up to a point, but nobody has been able to successfully replicate it: nobody else can do what they do in the way that they do it," (Gómez, 2012).

**Results**

Founder Amancio Ortega said, “International expansion carried out both independently and through agreements with other companies, is the object that cannot be delayed and will allow us, through diversity, to enrich our culture and vision of the market.” Internationalization occurs when a company begins to increase its involvement into international markets. The internationalization process of Inditex brands focuses on three main areas: motivation, market selection, and market entry strategies. The motivation factors for internationalization, as seen in Table 1, allow for a company to weigh the risks and rewards of entering a specific foreign market. Inditex considers these factors, which include disadvantages or barriers to enter a market (push factors and inhibitors) as well as advantages or benefits to enter a market (pull factors and facilitators).

In the case of Inditex, there were factors involved in their internationalization process, including macroeconomic and microeconomic variables. The group used macro analysis to evaluate regulation (taxes, tariffs, legal factors), economic factors, technological factors, and socio-cultural factors. Micro analysis evaluated potential locations, local competitors, and demand. Inditex must take both the macro and micro variables into account before deciding to enter a new market. All of these factors had to be considered in both the physical and virtual expansion of Inditex into foreign markets. In addition, to prepare for international expansion, Inditex began to invest in its information technology and manufacturing logistics. The group established its advanced telecommunications system, a just-in-time manufacturing system, and a spacious warehouse close to its headquarters (Ghemawat, 2006).

**Physical Expansion**

Overall, Inditex has been successful in its ability to transfer its fast fashion business model into markets around the world. The first international venture for Inditex came in 1988 when a Zara store was opened in Portugal's second largest city, Porto. Zara had already had tremendous success in Spain with over 80 stores. Portugal was chosen due to its short cultural and geographical distance to Spain. Portugal was also known to have well-established factories that would provide Inditex with cheap labor for their production.

When it came to its next store opening in a foreign market, Inditex CEO, Pablo Isla, believed a mix of regions would be more advantageous rather than focusing on one. Inditex also took into account the degree of openness of a country's markets and the business opportunities offered (Miranda, 2020). Inditex took the leap overseas and opened stores in the United States in 1989, with the confidence that entering the American market would provide large sets of information on fashion trends. Inditex began its American expansion with the opening of the flagship store on Fifth Avenue in New York City. The stores had slowed growth due to the differences in the European and American consumer markets. It was going to be a challenge to reach the number of customers the brands were aiming for. In Spain and Portugal, customers live in and around the cities where the stores are located. In the United States, while the population is great, so is the land area. It became a challenge for Inditex to create strong brand awareness in the American market when the group chose to open stores in highly populated cities in prime shopping districts. Inditex was unable to reach the mass number of customers, and by the early 2000s, there were only six stores open in the US (Vincent et al., 2013).

Inditex returned to expanding within Europe in order to establish a strong brand image. The company had a period of rapid expansion and investment in the 1990s, and by 2000 had expanded into the Asian and South American markets (a full list of store openings is shown in Table 2). During this time, Inditex also began diversifying its retail brands, launching a Zara subgroup of children's clothing in 1990 (Vincent et al., 2013). By the 2010s, Inditex was the largest fashion retail group in the world and was opening more than one storefront per day in international markets.

At the start of its physical expansion, Inditex seemed to follow the classic stage model by first entering into geographically or culturally adjacent markets before taking opportunities into more distant markets (Lopez & Fan, 2009). Inditex described its expansion pattern in Spain and Portgal as an “oil stain”, so that as one Zara flagship store was opened in a major city, the company was able to gain experience and then open more stores in adjoining areas (Ghemawat, 2006).

Since then, Inditex has chosen three main strategies for entering into a foreign market: subsidiaries, joint-ventures, and franchising. The subsidiary strategy requires Inditex to make a direct investment into a market; this happens to be the most expensive venture and often requires high levels of control. Inditex created subsidiaries in countries with high growth prospects and low business risk (Ghemawat, 2006). This was the strategy chosen for expansion in Europe and South America.

In a joint-venture, Inditex teams up with a foreign firm in the target market and creates a co-operative strategy. This method is typically used in larger, more important markets where there are barriers to direct entry (Ghemawat, 2006). In this partnership, the advanced manufacturing facilities of Inditex are paired with the market expertise of the foreign firm. This strategy was chosen for expansion in South Korea in 2008. Inditex created a joint venture with the Lotte Group, one of South Korea's largest conglomerates with annual sales over $10 billion. In this joint venture, Inditex gained access to local knowledge and influence that was important to their expansion in South Korea. The Lotte Group was granted 20% ownership in Inditex Korea along with an international partner with a proven track record and high-demand products (Walcutt et al., 2015).

For countries that are considered to be a higher risk due to their cultural distance, smaller market size and/or administrative barriers, such as Saudi Arabia, Poland, and Malaysia, there is a low sale forecast. The franchising strategy is typically chosen for these markets. Inditex allows the franchisees to sell products and use its name, but the franchisee can choose the location of the store as long as it follows the conditions of the agreement and pays all upfront costs. The franchise contracts average around five years, with franchisees being well-established, financially strong players in local businesses (Ghemawat, 2006).

In some cases, Inditex starts with one mode of market participation then shifts to another. For example, it entered the Turkish market with the franchising strategy in 1998, but by the following year had changed to the subsidiary strategy (Ghemawat, 2006). In all of these strategies, Inditex begins with a small number of stores which allows the team to explore the possibilities of the new foreign market then expand further.

Not all of Inditex's foreign ventures were successful at the beginning. When the first Zara store opened in India in 2010, there were strict policies that were put in place by the government to restrict the number of foreign companies entering the market; Zara was asked to enter the Indian market in a joint venture with a local company. There was also a lack of seasonal variation and a challenge to keep up with the cultural needs. In order to combat this, managers at Zara worked alongside the local company to reach out to consumers in India to incorporate designs that align with local traditions.

Inditex aims for all customers to have the same experience in the physical stores. Zara storefronts around the world all have large mirrors, white walls, and spacious floor plans. The centralization of store layouts and interior store window displays is to promote its same market image worldwide (Aftab et al., 2018). The iconic window displays have played a large role in drawing in customers. While designers plan for similar designs to be reproduced in all storefronts, there are often subtle differences to reflect the culture of each city.

Another component that can differ according to the specific market is the price of goods offered by Inditex brands. As previously discussed, pricing can vary country by country, because there are differences in costs due to customs, transportation, and other taxes and regulations. With their continued physical expansion out of Europe, Inditex is moving farther away from their hub of suppliers along with their design, logistics, and distributions centers. Even though Inditex can ship products to any location around the world in two days, the costs increase significantly as the distance increases. To offset these higher transportation costs, Inditex will charge its consumers more for its products in these markets. In turn, Inditex is unable to compete as competitively on price as it does in Spain (Vincent et al., 2013). As seen in Figure 5, prices for the exact same products sold in Spain, Inditex's home country, are almost doubled in Zara stores in the United States and South Korea.

In addition, due to their international presence, there are significant currency fluctuations that must be taken into account when evaluating the group's profit margin. Inditex generates over 50% of its annual sales in countries that do not use the euro for currency; however, the company produces the majority of its products in Spain, so the weakening of other currencies against the euro reduces the value of its sales when reported in euros (Neumann, 2018).

Overall, Inditex's physical expansion into new markets around the world is grounded on a promise to supply fashion at affordable prices and control the total supply chain to maximize its speed to market (Ferdows et al., 2003). According to CEO, Pablo Isla, Inditex expects to have "full integration of the brick-and-mortar stores and online businesses, with store openings that are increasingly more relevant" (McTaggart, 2017).

**Virtual Expansion**

Since the introduction of Internet, especially social media, fashion has become more global, as everybody knows what the trends are in different areas of the world. After the start of its physical expansion, Inditex began researching opportunities to sell products outside of their flagship stores. Mango, the fashion group's largest domestic competitor, began selling on the Internet in 2000 and had created a virtual outlet store by 2006 (Miranda, 2020). In response, when Pablo Isla was appointed CEO in 2005, he claimed the group was already working with a team to create a global, virtual commerce platform and wanted to make Inditex brands available to the customers "wherever they are in the world, even in those markets which do not currently have brick-and-mortar stores" (Salibian, 2018). This idea came in response to its expansion into the American market; due to its large geographic area, Inditex was unable to reach the target number of consumers with just their flagship stores.

In 2010, Inditex launched its first online Zara store and became available in 16 countries by the end of the year. This virtual expansion became crucial in the midst of the recession, as it allowed Inditex to expand into new markets with less financial investment than a physical storefront. By 2013, the Zara website was reaching over two million visits, with the other Inditex brands receiving another one million combined. Due to its virtual success, Inditex began to break down its financial statements in order to display its online sales as a percentage of total sales. In

2017 alone, online sales grew over 40% and made up 10% of annual sales of €25.3 billion (Neumann, 2018).

As of March 2021, Inditex brands have over 140 million social media followers, collectively on Instagram, Twitter, and Facebook, around the world. Last year, as the COVID-19 pandemic forced retail stores to close, executives at Inditex announced the company would be investing €900 million ($1 billion) each year through 2022 with the intended goal of boosting its e-commerce operations and expanding store space (Orihuela, 2020). According to Pablo Isla, Inditex ultimately wants to ensure that its brands could be made available for purchase on "a sales platform that is fully integrated (physical points of sale fully interconnected with online outlets); fully sustainable (with all store meeting eco-efficiency standards); and fully digital (with all products available online in any corner of the world)" (Inditex, 2018).

With the enormous growth of e-commerce platforms, there has been a reduction of an initial barrier to entry for competitors. In the fashion retail industry, the barriers to enter were already considered low with the largest upfront cost being the acquisition of property, inventory, and a physical storefront (Vincent et al., 2013). The up-front cost to open a physical storefront was essentially eliminated for new retailers entering the industry. As the e-commerce and online retail platforms continue to grow in popularity, new competitors in the fashion industry are able to reach the same consumers as Inditex and increase competition. There has been a rise in fashion retailers who operate solely off an online storefront instead of investing in the traditional brick-and-mortar store.

In addition, virtual expansion is becoming more attractive for Inditex as customers are changing purchasing decisions to opt for more sustainable brands. Customers are educating themselves on the dangerous effects of the fast fashion business on the planet. In 2018, more than

160 Zara stores were closed after accruing over $4 billion in unsold inventory and receiving backlash from customers (Stein, 2019). The following section will expand further on the impacts of corporate social responsibility in the global fashion industry.

**Corporate Social Responsibility**

As the fast fashion business model has grown in popularity and been adopted by other companies, there has been increased conversation about the lifespan of clothes and the effects on the environment. People are purchasing clothing more frequently as stores like Zara are updating inventory every two weeks. This leads to more carbon emissions produced (1.2 billion tons in 2015) and more clothing being sent to landfills each year (73% of all clothing produced in 2015). According to the Ellen MacArthur Foundation, there are carbon dioxide emissions at each stage of the clothing production process from the fiber production to the disposal as seen in Figure 6.

Although the business model of Inditex was initially built to satisfy demanding economic objectives, the company has been able to achieve social and environmental sustainability with the help of new innovative strategies. The Sustainability Roadmap of Inditex was unveiled by CEO Pablo Isla in July 2019 in response to the public’s environmental concerns. As seen in Figure 7, the plan maps out a series of milestones and commitments which the company is working towards between now and 2025. These commitments include the use of only certified sustainable materials and processes, with the goal of reaching net zero emissions by 2050 (Inditex, 2020). In addition, Inditex has created a sustainability committee, as seen in Figure 8, which is comprised of a Chief Sustainability Officer and the heads of the sustainability departments. This committee communicates directly with the Inditex Board of Directors in order to make decisions regarding sustainability efforts.

Inditex has been focused on becoming more sustainable since before the reveal of their Sustainability Roadmap. In 2014, Inditex scored 96 out of 100 in the environmental area for the Dow Jones Sustainability Index, positioning itself globally, ahead of 98% of similar companies from the same sector (Popescu, 2015). According to the 2019 Inditex Annual Report, the business model was founded on the value chain that enables the company to offer quality fashion products that meet the most demanding sustainability and health and safety standards. The report goes on the describe their commitment to human rights, the sustainable development goals and, especially, transparency and ongoing dialogue with stakeholders (Inditex, 2020). In 2017, CEO Pablo Isla said, “Every decision we make, we consider sustainability – not just me personally, but also the board and all the employees” (McGinn, 2017). Sustainability includes the quality of the products, what they're made from, the working conditions for the people making them, and the ability to recycle them. Isla goes on to say, “We have a public commitment that all our stores will be eco-efficient in the year 2020. That means they will use 40% less water and 20% less energy and that all materials will be environmentally certified.”

Inditex has been known to value social corporate responsibility and be mindful of consumers' growing desire to know their clothes were made under safe working conditions. After the Dhaka garment factory building collapse in Bangladesh, which killed 1,134 and injured 2,500 others in 2013, Inditex was one of the 38 companies that signed the Accord on Factory and Building Safety in Bangladesh. Inditex has a large number of suppliers and is able to halt production with a supplier if unfavorable or unethical conditions are discovered within a factory (Vincent et al., 2013). This strategy, beyond being morally responsible, is good for business since a scandal could hurt the Inditex brand name. In 2017, 95% of products were made at factories with favorable working condition, up from 80% in 2012 and well above industry averages (Leaf et al., 2018). In another stride toward ethical working conditions, Inditex has been known to conduct its own training on worker safety, with an emphasis on educating women, which make up 85% of its factory staff, on how to recognize gender discrimination and defend their rights (Leaf et al., 2018).

Focusing on sustainability and acting ethically hasn't hurt the company financially; Inditex has posted annual sales growth for the past decade. CEO Pablo Isla says, “Inditex is proud to be defined as a company with sustained and sustainable growth in pursuit of the greater goal of creating value beyond profits” (Diderich, 2016). Inditex is proud to be able to contribute to general welfare programs; the company has made investments in social programs and paid in taxes worldwide a total amount of €2.066 billion (Popescu, 2015).

**Future Projections**

Inditex, along with many companies, are seeking new sources of growth within the populated Asian and South American markets, including China, India, and Brazil. These countries are all known to have large populations and strong economic growth. As consumers recover from the COVID-19 pandemic and gain more disposable income, their first increase in spending beyond necessities occurs within the apparel industry, making these markets appealing for global fashion retailers. Inditex is currently favoring expansion within China, as CEO Pablo Isla says "going into China is like beginning again in Europe for Inditex." Similar to their entry into Indian markets in 2010, China will impose challenges given that Inditex brands’ prices are much higher than local companies. China has large numbers of garment manufacturing plants, so most clothing is cheaper than in other regions. In Europe, Inditex was successful because its products seemed like a steal, but in China, Inditex will have to adjust its practices to portray products in a way that justifies the higher price point (Vincent et al., 2013).

With the impact of the COVID-19 pandemic, it would be wise for Inditex to also invest in its e-commerce platforms and the security measures. The retail industry is seeing increased closings of physical storefronts, which has led many consumers to begin purchasing products online. The Zara website has been criticized for its site design, which is not user-friendly. It is difficult to browse, filter, and sort products. The site uses a minimalist design along with various sized images to highlight its product offerings. The images can be distracting and difficult to navigate around when trying to browse the site. While the usability is quite poor, Zara does offer online customer service and the ability for customers to enter in their exact measurements in order to find the right size of a product. There has also been a rise in hacks on secure websites; Twitter, for example, was hacked in the summer of 2020, which led to many losing trust in the security of the social networking site. It is important that Inditex take increased measures to protect its consumers, especially if the company chooses to allow customers to store personal information on its website, like shipping and billing addresses as well as credit card numbers.

Lastly, Inditex should look into partnering with influencers on social media platforms like Instagram and Tik Tok. Collectively, these platforms have over two billion monthly users. Even though Inditex does hardly any advertising for its brands, these social media platforms provide a large audience and are a great opportunity for engagement. This past year, Instagram and Tik Tok have generated “cult-followings” for the latest and greatest products and trends; users have made profits for small businesses and even made a song so popular for which the singer won a Grammy. If Inditex were to partner with users to promote their newest products, they could reap the benefits and make greater profits.

**Conclusion**

Inditex has diverted from the traditional production-oriented business model organized by season and has replaced it with a new model of fast fashion, where garments are continually renewed based on customer demand. Louis Vuitton's fashion director Daniel Piette calls Inditex, "possibly the most innovative and devastating retailer in the world." As the creator of the fast fashion business model, Inditex has obtained first mover advantage, more time to perfect production and design processes, along with more time to grow their global presence.

While the dramatic growth rate of European fast fashion chains implies that other companies have learned to replicate parts of Inditex's model, the group holds a high brand value that cannot be achieved quickly. Due to its implementation of the fast fashion business model, Inditex has been the leading clothes retailer in the world since 2013, with sales exceeding €20 billion annually and a market value of €94 billion, 927% higher than when it was listed on the stock exchange in May 2001 (Miranda, 2020). Inditex will certainly face increased competition as other fashion retailers adopt their business model; however, Inditex currently holds a strong, definite, and influential role in the market.

Fast fashion has served as a guide to other fashion retailers on how to enter the market and expand internationally, in addition to making Inditex indestructible. Inditex is continuously looking for ways to improve its strategy and improve its longevity. Masoud Golsorkhi, the editor of Tank, a London culture and fashion magazine says, "Inditex broke up a century-old biannual cycle of fashion. Now, half of the high-end fashion companies make four to six collections instead of two each year. That's absolutely because of Inditex." When one fashion retailer can control the rest of the industry, there is unlimited potential for growth and success.

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## Tables

Table 1

*Motivation Factors for Internationalization*

| Push Factors | Inhibitors | Facilitators | Pull Factors |
|---|---|---|---|
| Saturation<br>Low growth opportunities<br>Changes in consumer behavior | Administrative barriers<br>Geographic distance<br>Low economic development<br>Different seasonality<br>Cultural distance<br>Lack of experience<br>Risk perception | International status<br>Learning process<br>Spreading cost and risk | Spain joined the European Union<br>Economies of scale<br>Globalization<br>Abolition of economic barriers<br>Growth chances<br>Cultural affinities<br>Information technologies |

*Note:*

Table 2

*Inditex's Physical Entrance into Foreign Markets*

| | EXPANSION BY | |
|---|---|---|
| YEAR | *Country* | *Region* |
| 1975 | Spain | Europe |
| 1988 | Portugal | |
| 1989 | United States | North America |
| 1990 | France | |
| 1992 | Mexico | |
| 1993 | Greece | |
| 1994 | Belgium, Sweden | |
| 1995 | Malta | |
| 1996 | Cyprus | |
| 1997 | Norway, Israel | Middle East |
| 1998 | Argentina, United Kingdom, Venezuela, Lebanon, United Arab Emirates, Kuwait, Turkey, Japan | Asia |
| 1999 | Netherlands, Germany, Poland, Saudi Arabia, Bahrain, Canada, Brazil, Chile, Uruguay | |
| 2000 | Andorra, Qatar, Austria, Denmark | |
| 2001 | Puerto Rico, Jordan, Ireland, Iceland, Luxembourg, Czech Republic, Italy | |
| 2002 | Finland, Switzerland, El Salvador, Dominican Republic, Singapore | |
| 2003 | Slovenia, Slovakia, Russia, Malaysia | |
| 2004 | Hong Kong, Morocco, Estonia, Latvia, Romania, Hungary, Lithuania, Panama | Africa |
| 2005 | Monaco, Indonesia, Thailand, Philippines, Costa Rica, Puerto Rico | |
| 2006 | Serbia, China, Tunisia, Norway | |
| 2007 | Croatia, Guatemala, Oman | |
| 2008 | South Korea, Ukraine, Montenegro, Honduras, Egypt | |
| 2009 | Syria, Macao | |
| 2010 | India, Bulgaria, Kazakhstan | |
| 2011 | South Africa, Australia, Taiwan, Azerbaijan, Peru | Oceania |
| 2012 | Macedonia, Georgia, Bosnia, Armenia, Ecuador | |
| 2013 | Albania | |
| 2015 | Algeria | |
| 2016 | New Zealand, Vietnam, Paraguay, Aruba, Nicaragua | |
| 2017 | Belarus | |

*Source: https://www.inditex.com/about-us/our-story*

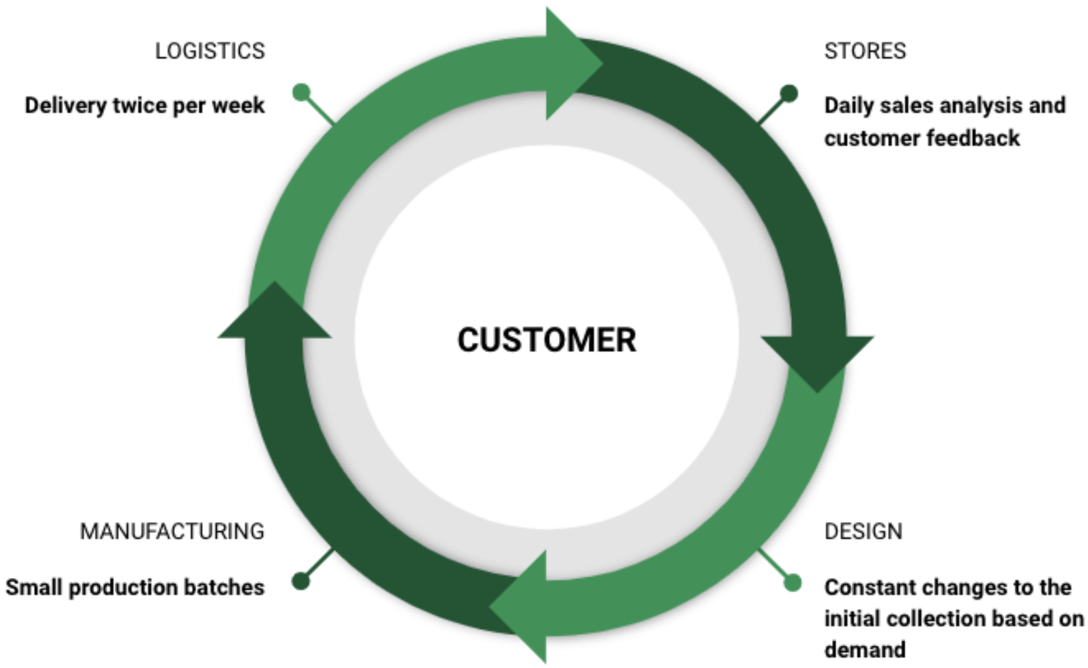
## Figures

Figure 1

*Customer Demographics by Company at Inditex*

Figure 2

*Business Model of Inditex*




*Note: Adding value beyond profits*

Figure 3

*Price Comparisons: H&M and Zara*

## H&M and Zara price architecture of loungewear products

Based on the advertised full price of products available online on Dec 8, 2020

| Price points USD | H&M Sweatpants | Zara Sweatpants | H&M Hoodies | Zara Hoodies | H&M T-Shirts | Zara T-Shirts |
|---|---|---|---|---|---|---|
| $0 - 5 | 0% | 0% | 0% | 0% | 4% | 0% |
| $5 - 10 | 0% | 0% | 0% | 0% | 21% | 9% |
| $10 - 15 | 4% | 0% | 0% | 0% | 31% | 8% |
| $15 - 20 | 19% | 2% | 13% | 0% | 24% | 31% |
| $20 - 25 | 26% | 0% | 24% | 0% | 12% | 0% |
| $25 - 30 | 11% | 17% | 26% | 25% | 3% | 27% |
| $30 - 35 | 27% | 0% | 28% | 0% | 3% | 0% |
| $35 - 40 | 11% | 42% | 7% | 32% | 1% | 19% |
| $40 - 45 | 0% | 0% | 0% | 0% | 0% | 0% |
| $45+ | 2% | 39% | 2% | 43% | 1% | 6% |

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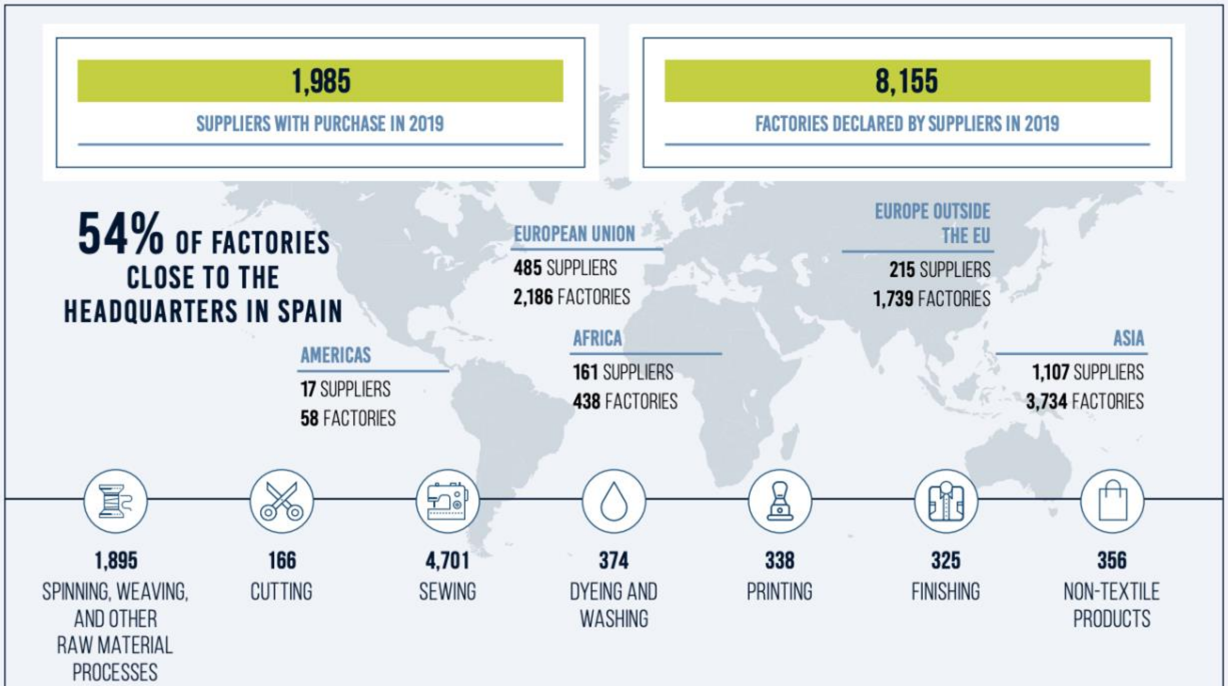
*Source: https://blog.edited.com/blog/resources/zara-vs-hm-whos-in-the-global-lead*

Figure 4

*Inditex Suppliers on the Map*



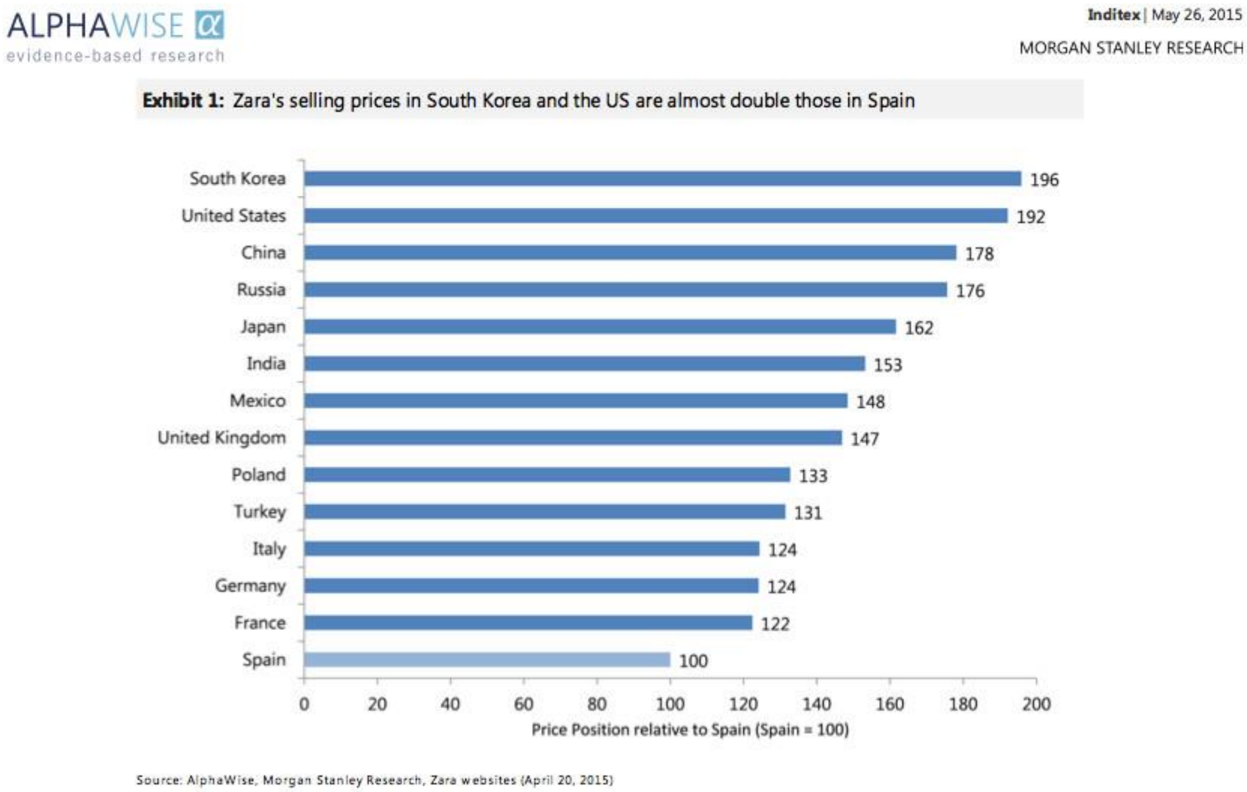

**THE SUPPLY CHAIN AT INDITEX 2019**

| | SUPPLIERS WITH PURCHASES 2018 (4) | SUPPLIERS NOT USED IN 2019 | NEW SUPPLIERS 2019 | SUPPLIERS WITH PURCHASES 2019 |
|---|---|---|---|---|
| Africa | 146 | 11 | 26 | 161 |
| Americas | 23 | 8 | 2 | 17 |
| Asia | 1,138 | 255 | 224 | 1,107 |
| Europe outside the EU | 200 | 29 | 44 | 215 |
| European Union | 519 | 96 | 62 | 485 |
| **TOTAL** | **2,026** | **399** | **358** | **1,985** |

*Source: 2019 Inditex Annual Report*

Figure 5

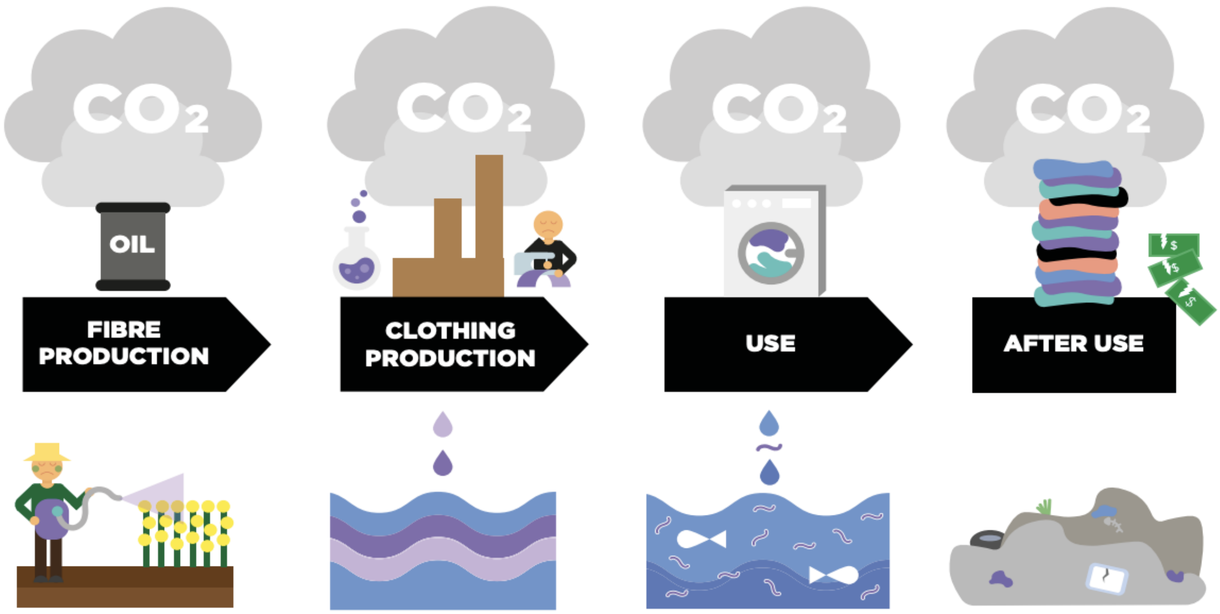
*Zara Price Comparison*




*Source: https://us.fashionnetwork.com/news/zara-worldwide-pricing-strategy-revealed-by-study,544318.html*

Figure 6

*Carbon Emissions in the Clothing Production Process*

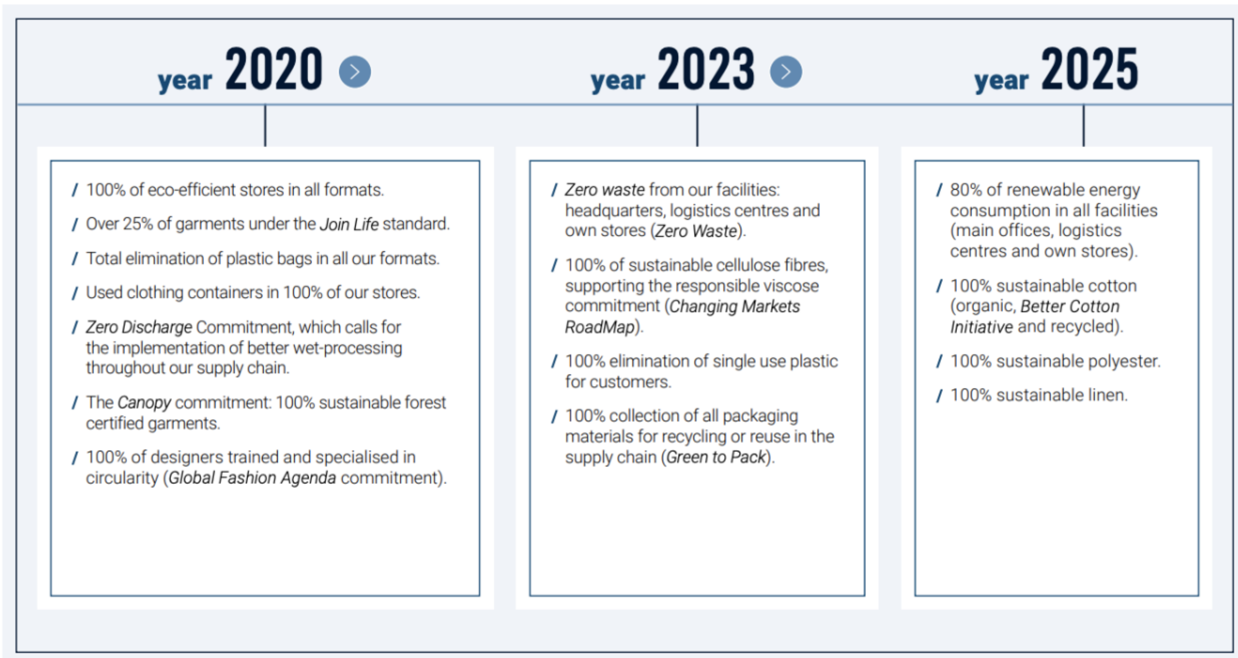



*Source: Ellen MacArthur Foundation*

*Note: Today's clothing system puts pressure on resources, pollutes the environment, and creates negative societal impacts.*

Figure 7

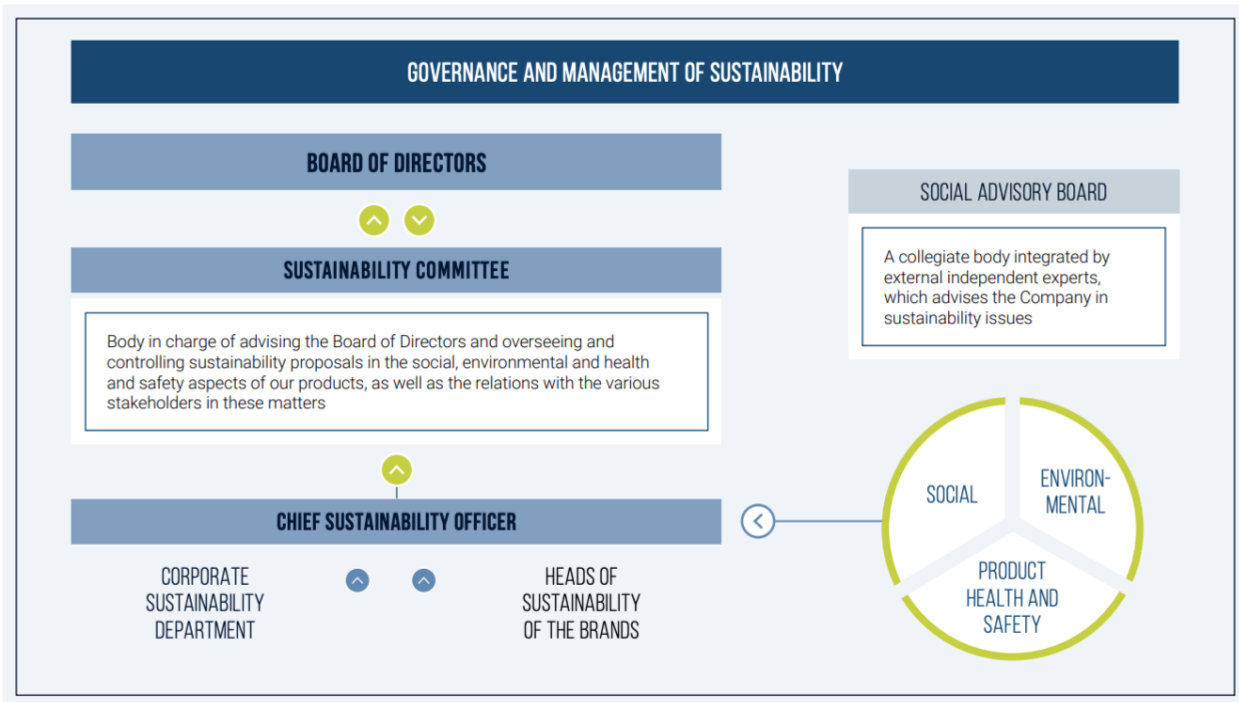
*Future Projections of Sustainability*




*Source: 2019 Inditex Annual Report*

Figure 8

*Inditex Sustainability Governance*




*Source: 2019 Inditex Annual Report*

*Note: The Sustainability Committee was created in July 2019*

# Appendix

Potential Case Study Questions

1. Zara constitutes over 60% of Inditex's sales. How can the fashion group create greater scale of its other brands (Stradivarius, Bershka, etc.)? Should Inditex focus on Zara, its primary revenue earner, or devote more resources to its smaller brands?
2. What challenges arise when a firm focuses its efforts on non-market strategy in order to enhance its competitive advantage?
3. How has Inditex been able to become the largest fashion retailer in the world with minimal advertising? How does the group project its global brand image and product offerings to consumers?